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INSULAR AREAS RECOVERY ACT OF 1990

HEARING

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

S. 2362

TO ENHANCE THE SURVIVABILITY AND RECOVERY OF THE INSULAR AREAS FROM SEVERE STORMS

MAY 17, 1990

Printed for the use of the
Committee on Energy and Natural Resources

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INSULAR AREAS RECOVERY ACT OF 1990

THURSDAY, MAY 17, 1990

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, DC.

The committee met, pursuant to notice, at 9:55 a.m., in room SD-366, Dirksen Senate Office Building, Hon. Jeff Bingaman, presiding.

OPENING STATEMENT OF HON. JEFF BINGAMAN, U.S. SENATOR FROM NEW MEXICO

Senator BINGAMAN. The hearing will come to order. Senator McClure has been detained in traffic, I am informed, and will be here shortly.

The hearing is scheduled to consider S. 2362, the Insular Areas Recovery Act of 1990. I apologize I will not be here for the whole thing. Senator McClure will pick up for the balance of it. We have an opening statement that Senator McClure has prepared which we will put in the record at this time. Then, why do we not go right ahead with beginning to hear from some of our witnesses.

The first witness is Mr. Derek Hodge, who is Lieutenant Governor of the U.S. Virgin Islands in St. Thomas. Would you please come forward. Thank you for being here and we apologize for keeping you waiting.

[The prepared statements of Senator McClure, Mr. Fuster, and the text of S. 2362 follows:]

Statement by Senator McClure

I want to thank the Chairman for scheduling this hearing. Like him I have several conflicts this morning so I will ask all witnesses to submit their prepared statements so that we can ask some questions.

Both Senator Johnston and I have had to deal with the problem of disasters in the territories from our position on this Committee and from the more difficult position of the Appropriations Committee. One thing I think we have learned is that while it is impossible to predict when and where a natural disaster will occur, it is almost certain that some island will be hit every year. Last year it was the Virgin Islands and Puerto Rico, earlier this year it was Samoa. It has been 14 years since Typhoon Pamela visited Guam, so it is probably time for them to be hit again.

From the Appropriations standpoint, we simply can not afford to continually delay basic programs because neither we nor the Administration budgeted for a disaster. There is also no reason why we do not require all new infrastructure to be hardened. Even if no disaster occurs, better construction practices should reduce the out year maintenance costs. For the Virgin Islands, I think serious consideration should be given to burying

transmission lines where possible. That would not only enhance their survivability, but would also assist the aesthetics in a tourist area.

I am particularly concerned that in the immediate aftermath of Hugo, the Governor was not able to communicate with St. Croix. We simply can not allow that to happen again. I find the situation in Samoa equally distressing. The Governor obtained private insurance on public facilities and as a result could not obtain any assistance from FEMA for hazard mitigation since mitigation funds are calculated as a percentage of federal funding. The Governor saved the federal government money and as a result FEMA was unable to provide mitigation assistance. I also find it strange that REA is unable to provide assistance in many of the islands because the systems were built with Interior grants or loans rather than REA assistance and even stranger that Samoa is apparently not rural because of the population density.

I share the Chairman's hope that we will be able to enact this legislation and start to make the full range of federal assistance available to the insular areas in a manner which takes into account both our special responsibilities to the areas and the particular circumstances of each area.

JAIME B. FUSTER
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PUBLIC LANDS

EDUCATION AND LABOR
SUBCOMMITTEE
EMPLOYMENT OPPORTUNITIES

May 16, 1990

Hon. Bennett Johnston
Chairman
Energy Committee
U.S. Senate
SD-364
Washington, D.C. 20510-6150

Dear Chairman Johnston:

I am writing to express my support and appreciation for your introduction of S2362 to provide assistance to island areas which have suffered damage from severe storms. The consolidation of grants proposed in the bill will indeed enhance our recovery as well as that of the other insular areas affected.

As you know, Hurricane Hugo devastated Puerto Rico and enactment of this bill will continue us on the road to reconstruction.

I have co-sponsored the companion bill in the House, HR 3649 "to help Puerto Rico and the Virgin Islands recover from devastation caused by Hurricane Hugo" which was introduced by the Hon. Ron de Lugo.

Please insert this letter in the record of your hearings of May 17 and share my appreciation with Senator McClure who co-sponsored this beneficial measure with you.

Yours sincerely,

Jaime B Fuster

Jaime B. Fuster
Member of Congress

JBF/jv

II

101ST CONGRESS
2D SESSION

S. 2362

To enhance the survivability and recovery of the insular areas from severe storms.

IN THE SENATE OF THE UNITED STATES

MARCH 29 (legislative day, JANUARY 23), 1990

Mr. JOHNSTON (for himself, Mr. INOUYE, Mr. MCCLURE, and Mr. MURKOWSKI) introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

---

A BILL

To enhance the survivability and recovery of the insular areas from severe storms.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Insular Areas Recovery Act of 1990".

SEC. 2. DEFINITIONS.

As used in this Act—

(1) the term "insular areas" means the United States Virgin Islands, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the

Trust Territory of the Pacific Islands, and the Freely Associated States;

(2) the term "disaster'" means that the President has declared a disaster under section 301 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.); and

(3) the term "Secretary" means the Secretary of the Interior.

SEC. 3. AUTHORIZATION.

There are hereby authorized to be appropriated such sums as may be necessary to construct facilities to protect public health and safety, and to enhance the survivability of essential infrastructure in the event of disasters in the insular areas. Such sums shall remain available until expended and shall be considered local funds for the purposes of Federal-local matching requirements.

SEC. 4. USE OF CERTAIN FUNDS.

(a) For a period of two years from the date on which a disaster is declared by the President, the Governor of the affected insular area may transfer up to 100 percent of that insular area's respective allotment under section 2604(b) of the Low-Income Home Energy Assistance Act of 1981 (42 U.S.C. 8623(b)) for the fiscal year in which the disaster occurred, for use in disaster recovery or in enhancing the survivability of essential infrastructure in the event of future dis-

asters. Such funds shall be transferred to a State Energy Conservation Program established pursuant to section 362 of the Energy Policy and Conservation Act (42 U.S.C. 6322), and such use of these transferred funds shall be deemed to be consistent with the purposes for which such program was established. The Governor of the insular area shall inform the Secretary of any such transfer of funds. Puerto Rico shall be considered to be an insular area for the purposes of this subsection.

(b) During the two-year period following a disaster in Puerto Rico, it shall be deemed to be an insular area for the purposes of section 501 of the Act entitled "An Act to authorize certain appropriations for the territories of the United States, to amend certain Acts relating thereto, and for other purposes", approved October 18, 1977 (48 U.S.C. 149a), when in the judgment of the appropriate agency head the consolidation of grants would facilitate recovery from disaster damage.

SEC. 5. TECHNICAL ASSISTANCE.

(a) Upon the declaration by the President of a disaster in an insular area, the President shall assess, in cooperation with the Secretary and the Governor of such insular area, the capability of the insular area government to respond to the disaster, including the capability to: assess damage; coordinate activities with other agencies, particularly the Federal

Emergency Management Agency (FEMA); develop recovery plans, including recommendations for enhancing the survivability of essential infrastructure; negotiate and manage reconstruction contracts; and prevent the misuse of funds. If the President finds that the insular area government lacks these, or other capabilities essential to the recovery effort, then the President shall provide technical assistance to the insular area government which the President deems necessary for the recovery effort.

(b) One year following the declaration by the President of a disaster in an insular area, the Secretary shall report to Congress on the status of the recovery effort, including: an audit of Federal funds expended in the recovery effort; and recommendations on how to improve public health and safety, survivability of infrastructure, recovery efforts, and effective use of funds, in the event of future disasters.

SEC. 6. WAIVERS.

(a) HAZARD MITIGATION.—The President may waive any cost contribution requirements or conditions under section 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.) with respect to expenditures in an insular area if the President finds that such a waiver would promote reconstruction in the disaster area so as to enhance the survivability of essential infrastruc-

ture, or would enhance public health and safety, in the event of future disasters.

(b) USE OF LOCAL FIRMS.—The President may waive the requirement of section 307 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.) in an insular area if the Preident finds that the disaster has exceeded the capability of local firms to respond to the disaster.

SEC. 7. TECHNICAL AMENDMENT.

Section 102(3) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.) is amended by inserting after the words "American Samoa," the following: "Commonwealth of the Northern Mariana Islands, the Trust Territory of the Pacific Islands and the Freely Associated States".

SEC. 8. ELECTRIFICATION LOANS.

(a) The Administrator of the Rural Electrification Administration is authorized to make loans, or provide other financial and technical assistance under the Rural Electrification Act (7 U.S.C. 901 et seq.), including sections 4, 5, 305, and 306 of such Act (7 U.S.C. 904, 905, 935, and 936) in any insular areas in which the President declares a disaster, for the purposes set forth in such Rural Electrification Act, including the financing of the construction and operation of generating plants, electric transmission and distribution lines

or systems to provide electricity to any persons who are resident in such territory. Such authority shall expire five years after the date on which the President declared the disaster.

(b) Nothing in this section shall be deemed to affect any program of Federal financial assistance that may otherwise be available under any provision of law.

○

STATEMENT OF HON. DEREK HODGE, LIEUTENANT GOVERNOR, U.S. VIRGIN ISLANDS, ST. THOMAS, ACCOMPANIED BY PETER HEBERT, ESQ., BISHOP, COOKE, PURCELL & REYNOLDS, ATTORNEYS FOR THE GOVERNMENT OF THE VIRGIN ISLANDS

Mr. HODGE. Good morning.

Senator BINGAMAN. Good morning.

Mr. HODGE. With the Chair's permission I have with me counsel for the Government of the Virgin Islands, attorney Peter Hebert from the law firm of Bishop, Cooke, Purcell & Reynolds. I would like to have him sit with me.

Senator BINGAMAN. That is very good. We are glad to have him here. Is your office in the Virgin Islands?

Mr. HEBERT. Here in Washington.

Senator BINGAMAN. Well, you are an unfortunate person. [Laughter.]

Mr. HODGE. Mr. Chairman, I would like to, before reading my formal statement, make two observations. One is that while the focus of my testimony and the Governor's statement is on the Virgin Islands, we are also concerned about our friends in the Pacific areas and so, we testify basically on behalf of the insular areas. I would also like to say that as I testify here today, I would ask that we all be mindful that hurricane season begins in 1 month.

Mr. Chairman, members of the Committee, on behalf of the people of the United States Virgin Islands I want to thank you for this opportunity to appear in support of S. 2362, the Insular Areas Recovery Act of 1990. Governor Alexander A. Farrelly could not be here today and I ask that his full statement be made a part of the hearing record.

Senator BINGAMAN. We will be glad to include it in the record.

Mr. HODGE. Mr. Chairman, the insular areas are particularly vulnerable to severe damages from devastating storms. This past season the Virgin Islands was struck by Hurricane Hugo, the most devastating natural disaster, on a relative basis, in American history. The Pacific insular areas also suffered great damages from tropical storms. The catastrophic physical losses sustained in the Virgin Islands have required massive disaster relief payments by FEMA and other Federal agencies, but our public facilities remain as vulnerable to future storms as they were to Hugo's destructive forces.

Under the Stafford Act, Mr. Chairman, FEMA is limited in what it can do. The agency, under current law, is required to expend vast sums to restore public facilities to the conditions that existed prior to the natural disaster. Thus, in the insular areas, particularly, there is a recurrent pattern of destruction and reconstruction followed by more destruction and more reconstruction at unacceptable levels of cost to the Federal Government and suffering among the people in the effected areas.

Under Stafford Act limitations, electrical service was restored in the Virgin Islands at a great cost to the Federal Government and great inconvenience to our people. But the islands' power system is still as vulnerable to future storms as it was before Hurricane Hugo. The Corps of Engineers, under FEMA contract, has complet-

ed repairs to our sewage treatment facilities but they remain below EPA's required standards. Public water service has been restored but a more secure emergency supply has yet to be identified. Upon completion of FEMA repairs, public health facilities will remain inadequate and hospitals will remain unaccredited. The Frederiksted pier on St. Croix, completely destroyed, can only be rebuilt by FEMA as an inadequate two-berth replacement.

Mr. Chairman, your bill, S. 2362 provides a reasoned and measured response to the problem of recurring national disasters in the insular areas. The bill provides an authorization for Federal funding of facilities essential to public health and safety and for Federal funding of improvements designed to enhance the survivability of public facilities in the event of future storms. Using appropriations made under this authorization, the Federal agencies with responsibility for the insular areas will make investments in infrastructure that will substantially reduce disaster relief costs in future years.

In the Virgin Islands the Interagency Hazard Mitigation Task Force has identified projects needed to enhance the survivability of public infrastructure that will cost more than $95 million to complete. Under Section 404 of the Stafford Act, FEMA is presently limited to providing no more than $17.3 million for these essential hazard mitigation projects. The remaining projects must be funded under the terms of your bill or not at all.

In the Virgin Islands the public health facilities are owned entirely by the government; there are no private hospitals or clinics. These facilities must be improved to serve the residents of the Territory and more than the 2 million tourists that visit our islands each year. The present unfunded cost of these improvements is more than $30 million. FEMA has agreed to provide only $10.7 million for reconstruction of health facilities, although negotiations to increase this amount are continuing.

Mr. Chairman, S. 2362 provides that the President may waive the limitations imposed by the Stafford Act on hazard mitigation funding by FEMA in an insular area. This is particularly important in the Virgin Islands where the 50 percent local matching requirement imposes severe hardship on the local government, and the overall limitation on FEMA's contribution to hazard mitigation, approximately $17.3 million, covers only a fraction of the requirements identified by the FEMA-coordinated task force.

Under your bill, the Virgin Islands Water and Power Authority, WAPA, could complete the needed improvements for survivability of the power system in any one of three ways. The improvements could be funded by appropriations to the Department of the Interior under Section 3; they could be funded by FEMA if the President waives the limitations imposed by Section 404 of the Stafford Act; or they could be funded by REA loans under Section 8 of the bill.

The least-cost alternative, of course, would be to approve Section 8, allowing REA to finance the improvements. If this becomes law, WAPA is prepared to apply for REA loans to accomplish essential modernization and hazard mitigation projects such as burying the main trunk lines on St. Croix at a cost of $35 million. Please remember that FEMA has just completed reconstruction of these fa-

cilities at a cost of $50 million without any improvement in survivability or reliability of customer service.

Mr. Chairman, investments must be made now in the insular areas if future Federal costs for disaster relief and reconstruction are to be controlled. I would respectfully remind this Committee that a new hurricane season is but one month away. Your bill accomplishes important cost savings by authorizing the construction of facilities essential to the public health and safety and the construction of facilities that will withstand future storm conditions.

We thank you for this opportunity to testify in support of S. 2362. I will be pleased to answer any questions you may have.

Thank you, Mr. Chairman.

[The prepared statement of Governor Farrelly follows:]

32-753 O - 90 - 2

Statement of

The Honorable Alexander A. Farrelly
Governor of the United States Virgin Islands

Before the

Committee on Energy and Natural Resources
United States Senate

* * * *

Washington, D.C.
May 17, 1990

Mr. Chairman and Members of the Committee, on behalf of the people of the United States Virgin Islands, I want to thank you for this opportunity to provide testimony in support of S. 2362, the "Insular Areas Recovery Act of 1990." This legislation is urgently needed to provide timely assistance to the Government of the Virgin Islands in rebuilding basic infrastructure that was damaged or destroyed by Hurricane Hugo.

Hurricane Hugo

Mr. Chairman, the devastation caused by Hurricane Hugo was unprecedented in the Virgin Islands. In fact no natural disaster has caused such extensive damage, on a relative basis, in any State of the Union. To demonstrate the need for enactment of your bill, I will summarize the magnitude of that disaster for the hearing record.

Hurricane Hugo struck the Virgin Islands with winds of up to 220 miles per hour for a twelve-hour period on September 17-18, 1989. The current estimates of physical damage exceed $1.5 billion, including substantially more than $1 billion in damages to the private sector and approximately $400 million in damage to essential Government facilities.

As a direct result of damage to the revenue-producing private sector, the Government of the Virgin Islands now projects disaster-related revenue losses of about $106 million through the end of fiscal year 1992. In addition the Government will sustain about $26 million in unreimbursed, disaster-related operating

expenses. Thus, the adverse impact of the Hurricane on Government revenues and expenditures through fiscal year 1992 will be approximately $132 million.

The Government has made application to the Federal Emergency Management Agency ("FEMA") for a Community Disaster Loan ("CDL") that will provide funds to maintain essential services. In addition we have reduced expenditures by $9 million in this fiscal year, and we expect to make further cuts before the year is concluded. Our resources are strained to meet operating expenses at a time when basic facilities must be restored and upgraded to prevent extensive damages in the likely event of future storms.

Mr. Chairman, the Government's facilities in the Virgin Islands sustained damages in excess of $375 million, but the full cost of reconstruction will not be known until the effort is completed. Our preliminary estimates of physical losses are included with this testimony as Attachment A. Those facilities that were scheduled for improvements under the Government's Capital Program sustained, in a number of cases, extensive damages. They will now require complete replacement. Construction schedules on other projects, such as solid waste disposal facilities, must be deferred as the Government addresses more critical needs. It is clear that the reconstruction effort will require all available FEMA assistance, the full measure of the Government's Capital Program, funding from other federal agencies, and resources not yet identified from any source.

The Virgin Islands Recovery Effort

Mr. Chairman, since Hurricane Hugo our attention has been focused on recovery and restoration of essential services. The FEMA staff has played a key role in this effort. I have commended the FEMA staff for working to bring relief to the people of the Territory during our time of need -- we have appreciated their dedication and cooperation with our Government's departments and agencies.

Under the Stafford Act, however, FEMA is limited in what it can do. The agency cannot restore a public facility to conditions better than those that existed prior to the disaster. Thus, the restoration of electrical service, which cost FEMA more than $50 million, has left the islands' power system as vulnerable to future storms as it was to Hurricane Hugo. The Corps of Engineers, under FEMA contract, has completed repairs to the sewage treatment facilities, but they remain below EPA's required standards. Public water service has been restored, but a more secure emergency supply has yet to be identified. Upon completion of FEMA repairs, public health facilities will remain inadequate, and hospitals will remain unaccredited. The Frederiksted pier on St. Croix, completely destroyed, can only be rebuilt by FEMA as an inadequate, two-berth replacement. The needed four-berth facility will require special design and $12 million more than FEMA can provide.

While understandable as Stafford Act limitations, these constraints will leave the Virgin Islands' infrastructure as

vulnerable and obsolete as before, notwithstanding the expenditure of hundreds of millions of dollars by FEMA and other federal agencies in relief payments. It is simply a fact of life that the Virgin Islands is situated in a geographical zone that is prone to nature's fury and destruction. Clearly our facilities must be rebuilt to specifications that will accommodate our geographic realities, including "hardening" our basic infrastructure to withstand the destructive force of future storms.

Facilities Improvements Under S. 2362

Mr. Chairman, S. 2362 provides an authorization for appropriations to construct facilities to protect public health and safety, and to enhance the survivability of essential infrastructure in the event of natural disasters in the insular areas. The response to Hurricane Hugo in the Virgin Islands requires funding in both areas, notwithstanding the large-scale reconstruction effort underwritten by FEMA.

Public Health and Safety

Prior to Hurricane Hugo, the Government of the Virgin Islands had committed $22.8 million of its Capital Program funds for improvements to public health facilities, all of which are owned and operated by the Government. At the present time FEMA will commit no more than $10.77 million for reconstruction of

these facilities, although negotiations are underway to increase this amount.

The most recent estimates of reconstruction costs including improvements to meet accreditation standards for hospitals, are $64.39 million. Thus, in the absence of increased FEMA funding, we will need an additional $30.82 million to complete the improvements deemed essential to meet the public health needs of our residents, as well as the more than 2 million tourists that visit the Virgin Islands annually. The present unfunded obligations of the Government to restore public health facilities are identified in Attachment B. Under section 3 of S. 2362, these improvements to protect the public health and safety could be provided through appropriations to the Department of Health and Human Services or to the Department of the Interior.

Hazard Mitigation

Mr. Chairman, the Government of the Virgin Islands has participated with an Interagency Hazard Mitigation Task Force to identify those projects which would enhance the survivability of essential infrastructure in the event of future disasters. The massive costs of Hurricane Hugo must be prevented from recurring.

Under current law, FEMA-funded section 404 hazard mitigation costs cannot exceed 10 percent of Public Assistance Program grants to the affected government under section 406 of the Stafford Act. In our case, FEMA has notified the Government that section 404 hazard mitigation funding will be $17.3 million.

This amounts to no more than a fraction of the Territory's needs. The Interagency Task Force has identified more than $95 million in needed improvements to essential infrastructure for hazard mitigation. Unquestionably, without additional funding, the Virgin Islands will be left vulnerable to massive damages -- and the federal government to massive disaster-relief costs -- in the event of another storm comparable to Hugo.

The hazard mitigation projects deemed most important include the establishment of a dependable, fully-integrated communications system which can function throughout the Territory during emergencies and under normal conditions. The isolation of St. Croix and St. Thomas during the Hurricane compounded the difficulties faced in the disaster-response effort and contributed to civil unrest. Because FEMA assistance is limited to restoring facilities to pre-disaster conditions, FEMA cannot fund electrical system improvements that will ensure greater survivability of essential services. The power generation and distribution systems must be improved, and ways and means must be found to finance those improvements. The need for essential upgrading of the Water and Power Authority ("WAPA") infrastructure has been determined by the U.S. Army Corps of Engineers, working with outside consultants and WAPA's own professional staff.

Other essential hazard-mitigation improvements are also needed to upgrade water distribution, road and gutter, waste water treatment, and fuel storage and distribution systems.

These and other projects, I would stress, are documented as necessary not only by the Virgin Islands Government, but also by the Interagency Hazard Mitigation Team composed of representatives of FEMA, the EPA, the Departments of Interior and Housing and Urban Development, the Army Corps of Engineers, and other federal agencies.

These projects would all be eligible for federal funding but for the limitations imposed by section 404 of the Stafford Act. The greater part, accordingly, can be funded only through enactment of S. 2362, the "Insular Areas Recovery Act of 1990."

REA Loan Authority

Mr. Chairman, the Interagency Task Force has documented $67.4 million in hazard mitigation projects to "harden" WAPA's electrical generation, transmission, and distribution facilities and to prevent future, massive losses in the event of another hurricane. The $50 million spent on WAPA's system in the past six months, as noted above, will be a recurring cost each time disaster strikes. The obvious need is to construct an improved, "hardened" electrical system. WAPA cannot finance the improvements in the private capital market, so the federal government, either through grants or loan assistance, must be asked for help.

Under your bill, Mr. Chairman, the Virgin Islands power system improvements can be financed through direct and guaranteed loan assistance from the Rural Electrification Administration

("REA"). Moreover, these loans can be made without increasing REA's obligational authority, as established each year by Congress. As a practical matter, the Virgin Islands Water and Power Authority is prepared to borrow the funds needed for hazard mitigation and other system improvements, and pay them back under the REA's terms and conditions.

At this committee's request, I have provided the Congressional Budget Office with an estimate of the required REA loan assistance to make improvements to the WAPA system in the Virgin Islands. This estimate is included as Attachment C. The power generation and transmission loan guarantees cannot have budget impact, as that program's eligible borrowers historically have not used their available loan authority. The REA authority contained in your bill is clearly the most cost-effective and efficient way to obtain the needed funding for improvements to the WAPA system. If your bill becomes law, WAPA will apply to the REA for the needed financing, at great savings in grant assistance from the federal government.

Presidential Waiver of Section 404 Limitations

Mr. Chairman, your bill provides that the President may waive any cost contribution requirements or conditions under section 404 of the Stafford Act, with respect to expenditures in an insular area. This would mean that the present 50 percent matching requirement for local sharing of hazard mitigation costs could be waived, as could the present overall limitation on

hazard mitigation funding. That limitation provides that hazard mitigation funding shall be no greater than 10 percent of all Public Assistance Program grant funding under section 406 of the Stafford Act.

This provision is essential to the Virgin Islands. Under its terms, FEMA could provide more than the $17.3 million now committed to hazard mitigation, and the Virgin Islands' 50 percent local matching requirement for such projects could be waived, upon a Presidential finding that such increased assistance would promote reconstruction in the disaster area so as to enhance the survivability of essential infrastructure. Our hazard mitigation projects now exceed $95 million in cost, with some $28 million for projects other than those associated with the electrical generation, transmission, and distribution systems. Under the terms of your bill, FEMA could, upon the proper Presidential finding, provide an additional $78 million for essential hazard mitigation projects. Of course, if REA financing is secured for WAPA's electrical system, the requirement for additional hazard mitigation funding would be reduced to about $11 million.

In any case, these provisions will surely reduce federal costs in future years. The systems improved with hazard mitigation grants will be designed to withstand future storms, and federal disaster relief costs will be reduced accordingly. The people of the Virgin Islands have other reasons for supporting this bill: they should never again be forced to

suffer from protracted power losses, water shortages, fuel distribution failures, and communications breakdowns, such as occurred in the days, weeks, and months following Hurricane Hugo. If such disruptions and dangers to public health and safety can be avoided, the proper steps must be taken to do so. I would respectfully remind the distinguished members of this committee that a new hurricane season is but one month away. These reasons, combined with the obvious federal cost savings, provide a compelling case for prompt enactment of your bill.

Disaster-Response Flexibility

Mr. Chairman, there are provisions of your bill which provide the governor of an insular area with needed flexibility under disaster conditions. These provisions should be supported and be retained as part of the larger package. For example, the bill provides that the Governor of an insular area may transfer its allocation under section 2604(b) of the Low Income Energy Assistance Act of 1981 for the fiscal year in which the disaster occurs for use in disaster recovery or hazard mitigation. In fiscal 1989, the Virgin Islands' allocation under this program was $63,057. This flexibility, I am sure, would be appreciated by all the Governors of the affected insular areas. Also under the bill, the President may waive the section 307 requirement that local contractors be used for debris removal and other federally-funded tasks if the President finds that the disaster has exceeded the capacity of local firms to respond. This

provision would be welcomed under extraordinary circumstances when outside assistance must be obtained to restore essential public services.

Conclusion

Mr. Chairman, S. 2362 is a timely response to a crisis in the Virgin Islands, and in other insular areas. Our crisis now is one of funding essential infrastructure improvements for public health and safety, and for hazard mitigation.

The bill deals directly with these twin problems. It provides, moreover, a flexibility in response that is welcome in the insular areas. If REA financing cannot be obtained, for example, the bill provides for Presidential waiver and FEMA grant assistance for urgently-needed power system improvements. If neither FEMA nor REA funding is obtained, the bill provides an authorization allowing other federal agencies to finance the needed improvements.

In the case of the Virgin Islands, the bill provides an authorization which clearly can be used to fund critically-important improvements to the public health facilities owned and operated by the Government. It provides flexibility needed by the Governors of small, remote jurisdictions overwhelmed by natural disaster, and it provides for additional technical assistance in responding to a host of unfamiliar problems in the wake of a major disaster.

Mr. Chairman, the insular areas are particularly vulnerable to natural disasters, as the recent hurricane and typhoon seasons have tragically demonstrated. Once disaster strikes, the resources of the local government are strained to the limit or beyond. FEMA provides important assistance under the Stafford Act, but FEMA by law is limited in what it can do. The need for hazard mitigation in the insular areas, for reasons of geography and size, is perhaps greater than in other jurisdictions under the American flag.

Your bill provides a reasoned and responsible program for disaster recovery in the insular areas, and I urge your colleagues to join with you and Senators McClure, Inouye, Murkowski and Stevens in promoting its prompt enactment by the Congress.

Thank you, Mr. Chairman.

ATTACHMENT A

GOVERNMENT OF THE VIRGIN ISLANDS OF THE UNITED STATES
PRELIMINARY DAMAGE ASSESSMENT ESTIMATE BY DEPARTMENT[1]

DEPARTMENT	TOTAL
LEGISLATURE	$ 376,000
TERRITORIAL COURT	1,438,508
UNIVERSITY OF THE VIRGIN ISLANDS	10,500,000
OFFICE OF THE GOVERNOR	265,653
DIVISION OF PERSONNEL	150,000
V.I. FIRE SERVICE	352,662
DEPARTMENT OF JUSTICE	12,316,000
LICENSING & CONSUMER AFFAIRS	397,156
BUREAU OF AUDIT AND CONTROL	29,855
BUREAU OF INTERNAL REVENUE	5,348,150
DEPARTMENT OF FINANCE	2,340,000
PROPERTY AND PROCUREMENT	1,069,000
V.I. PUBLIC TELEVISION	394,025
DEPARTMENT OF HEALTH	74,495,000
DEPARTMENT OF EDUCATION	79,573,182
DEPARTMENT OF HUMAN SERVICES	2,302,600
PLANNING AND NATURAL RESOURCES	1,899,500
V.I. POLICE DEPARTMENT	2,876,428
DEPARTMENT OF PUBLIC WORKS	14,180,627
HOUSING, PARKS AND RECREATION	12,807,600
ECONOMIC DEVELOPMENT AND AGRICULTURE	380,000
LABOR	141,740
V.I. HOUSING AUTHORITY	28,409,075
V.I. PORT AUTHORITY	28,793,000
WAPA	96,973,987
GERS	322,000
V.I. LOTTERY	152,600
	$378,284,348

1/ These preliminary damage estimates include capital costs for rehabilitation and other costs. The final cost of reconstructing capital facilities damaged by Hurricane Hugo continues to be refined as the reconstruction process proceeds.

ATTACHMENT B

UNITED STATES VIRGIN ISLANDS
HEALTH FACILITIES
UNFUNDED COST ESTIMATES

May 17, 1990

Facility	Unfunded Cost Estimates in Millions of Dollars
St. Croix	
St. Croix Hospital	$ 6.016
(asbestos removal)	.750
Interim Modular Facility	10.000
Charles Hardwood Clinic	.488
(asbestos removal)	.600
Maisonet Apartments	.064
Ingeborg Nesbit Clinic	1.037
St. Croix Subtotal	$ 18.955
St. Thomas	
St. Thomas Hospital	7.956
(asbestos removal)	.750
Knud Hansen Clinic	.280
(asbestos removal)	.600
East End Health Center	.006
St. Thomas Subtotal	$ 9.592
St. John	
Myra Keating Smith Clinic	.769
Morris DeCastro Clinic	1.500
Nurses Residence	.006
St. John Subtotal	$ 2.275
Grand Total Unfunded Health Facility Costs:	$ 30.822

ATTACHMENT C

LAW OFFICES

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March 29, 1990

Mr. Peter Fontaine
Budget Analyst
Congressional Budget Office
House Annex II, Room 444
Second and D Streets, S.W.
U.S. House of Representatives
Washington, D.C. 20515

Dear Peter:

Thank you for the opportunity to meet on yesterday to discuss the projects of the Virgin Islands Water and Power Authority (WAPA) proposed to be financed by the Rural Electrification Administration (REA) under legislation offered by Senator J. Bennett Johnston, for himself and other Senators.

As Mr. Donald C. Francois, Director of Engineering of WAPA, stated following his consultations with REA's Southeast Area Director, Mr. Alexander M. Cockey, Jr., WAPA upon enactment of Senator Johnston's bill intends to seek REA financing for eleven projects. These projects consist of a total of $40,580,729 in needed financing for power generation and transmission projects, and a total of $51,926,000 in needed financing for distribution projects.

Power Generation and Transmission

The Virgin Islands power generation and transmission projects are set forth in the attached Tables I and II.

Table I shows a proposed schedule for REA consideration and approval of WAPA's applications for power generation and transmission projects. If the projects are all approved in the fiscal year requested, the annual totals for application approvals would be follows:

FY 1991	$13,493,000
FY 1992	6,036,000
FY 1993	11,051,729
FY 1994	10,000,000
Total Applications (FY 1991-94):	$40,580,729

Table II shows a proposed schedule for REA outlays to construct the Virgin Islands power generation and transmission projects. These outlays by fiscal year are summarized as follows:

FY 1991	$4,000,000
FY 1992	8,500,000
FY 1993	8,029,000
FY 1994	7,000,000
FY 1995	7,000,000
FY 1996	6,051,729
Total Outlays (FY 1991-96):	$40,580,729

The power generation and transmission project cost estimates were prepared by WAPA, using its own resources and the resources of the U.S. Army Corps of Engineers, R.W. Beck & Associates, and Morrison-Knudsen.

Distribution Projects

Table III summarizes distribution projects for which WAPA will seek REA financing. These projects would be eligible for funding, upon approval of Senator Johnston's bill, under the REA's insured loan program. This program, we understand, has sufficient demand from qualified REA borrowers to meet the supply of available funding in any given fiscal year.

The total REA financing needed to complete WAPA's distribution projects is $51,926,000 based upon cost estimates from the same sources identified above. The outlays, of course, would be subject to the availability of financing. The schedule of outlays set forth in table III reflects the optimal construction schedule, assuming the availability of REA financing.

BISHOP, COOK, PURCELL & REYNOLDS

These WAPA projects, as we have noted, will almost certainly save the federal government substantial sums in the long term. Through hazard mitigation, the Virgin Islands electrical system will be able better to withstand future hurricanes. If all projects had been accomplished prior to Hurricane Hugo, the Federal Emergency Management Agency could have saved as much as $64 million in reconstruction costs.

Thank you for the opportunity to discuss this important program for the U.S. Virgin Islands.

Very truly yours,

BISHOP, COOK, PURCELL
& REYNOLDS

By: _____
Peter N. Hiebert

By: _____
John C. Kirtland

Attachments as Stated.

cc(w/attach): Mr. Alexander M. Cockey, Jr.

TABLE I

PROPOSED SCHEDULE FOR REA APPROVAL OF APPLICATIONS OF
U.S. VIRGIN ISLANDS WATER AND POWER AUTHORITY

(POWER GENERATION AND TRANSMISSION PROJECTS)

PROJECTS	FY 1991	FY 1992	FY 1993	FY 1994
Proposed Combined System for St. Thomas	13,493,000			
Switch Yards - St. Thomas & St. Croix		4,000,000		
Alternate 34.5 KV Cable to St. John		2,036,000		
Alternate Generating Site for St. Croix			11,051,729	
Underground System for the Territory (Transmission)				10,000,000
FY APPLICATION TOTALS:	$13,493,000	$6,036,000	$11,051,729	$10,000,000

TABLE II

PROPOSED SCHEDULE FOR REA OUTLAYS
ON U.S. VIRGIN ISLANDS PROJECTS

(POWER GENERATION AND TRANSMISSION)

PROJECTS	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	PROJECT TOTALS
Proposed Combined System for St. Thomas	4,000,000	6,000,000	3,493,000				13,493,000
Switch Yards - St. Thomas & St. Croix		2,000,000	2,000,000				4,000,000
Alternate 34.5 KV Cable to St. John		500,000	1,536,000				2,036,000
Alternate Generating Site for St. Croix			1,000,000	5,000,000	3,000,000	2,051,729	11,051,729
Underground System for the Territory (Transmission)				2,000,000	4,000,000	4,000,000	10,000,000
VIRGIN ISLANDS FISCAL YEAR GROSS OUTLAYS (PG & T)	$4,000,000	$8,500,000	$8,029,000	$7,000,000	$7,000,000	$6,051,729	$40,580,729

GRAND TOTAL

TABLE III

ESTIMATED REA OUTLAYS
for
U.S. VIRGIN ISLANDS DISTRIBUTION PROJECTS

(INSURED LOAN PROGRAM)

PROJECTS	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	PROJECT TOTALS
East End Substation St. Thomas	200,000	2,000,000	700,000	126,000		3,026,000
Underground System for the Territory (Distribution)		3,000,000	14,000,000	16,000,000	7,000,000	40,000,000
Close Loop Systems for St. Thomas & St. Croix	400,000	1,900,000	600,000			2,900,000
Dedicated 24.9 KV Line From Southshore to the Richmond Plant	500,000	500,000	500,000			1,500,000
3 Phase Line From Adrian To Coral Bay To Estate Concordia			200,000	600,000	200,000	1,000,000
West End Substation			500,000	2,000,000	1,000,000	3,500,000
REA OUTLAYS (DISTRIBUTION PROJECT INSURED LOANS):	$1,100,000	$7,400,000	$16,500,000	$18,726,000	$8,200,000	$51,926,000

GRAND TOTAL

Senator BINGAMAN. Well, thank you very much. I appreciate that statement. Did your attorney have any statement to add or any comments?

Mr. HEBERT. I do not.

Senator BINGAMAN. We appreciate your willingness to be here today. I think probably Senator McClure will have some questions for you. He may present some of those in writing. Let me ask, on this existing power authority that you have, WAPA, where did the funding for this initially come from?

Mr. HODGE. For WAPA?

Senator BINGAMAN. Yes.

Mr. HODGE. How it began?

Senator BINGAMAN. Yes.

Mr. HODGE. Historically, I believe, WAPA was funded by the Federal Government and then sometime in the 1960's, our government began to run WAPA ourselves. And we now go to market if financial conditions permit, to raise money through the bond market for WAPA projects.

Senator BINGAMAN. But the Federal Government did put a certain amount of funding into it initially to establish it?

Mr. HODGE. I believe, historically, WAPA was part of what was then called, the Virgin Islands Corporation, which was a Federal entity in the USDI. And, then when they were phased out, what they did in the Islands was turned it over to the local government.

Senator BINGAMAN. Was there ever any thought of using REA to accomplish this?

Mr. HODGE. I do not know, historically, why we were not a part of REA, sir. I recall in my youth seeing telephone poles with the initials REA on them and I am not sure if that meant the poles came from REA or what. But, apparently, we could never obtain the financing loans from REA.

Senator BINGAMAN. If you were under REA, have you looked at what would be available to you as far as Interior is presently—your funding comes through Interior instead of through REA. But, if it were the other way around, had we initially established it the other way around, there would be no need for this legislation; is that right?

Mr. HEBERT. Under the legislation, that upon a declaration of a major disaster by the President, the Virgin Islands would be eligible to borrow under existing REA programs just like any other eligible entity. That includes direct loan programs for power distribution, as well as loan guarantees for power generation and transmission.

The bill, I would like to remind the Committee, does not add at all to the budget authority or appropriations levels that are granted to REA by Congress every year; there is no change at all in REA. It only provides that the insular areas will be eligible, as would any other existing entity for a 5-year, limited period.

Senator BINGAMAN. All right. As I say, I believe Senator McClure may have some additional questions for you. If he does, I am sure he will submit those to you.

Thank you very much for testifying. We appreciate it very much.

Why don't we go on with the other witnesses. We have a panel of witnesses now: Mr. William Houston, who is the Deputy Assist-

ant Secretary of Interior for Territorial and International Affairs; Mr. Grant Peterson, Associate Director for State and Local Programs and Support Directorate, FEMA; Mr. Gary Byrne, Administrator of REA; and Mr. Frank M. Stewart, who is Deputy Assistant Secretary of Technical and Financial Assistance with the Department of Energy. We thank you all for being here. Mr. Houston, do you want to begin?

STATEMENT OF WILLIAM E. HOUSTON, DEPUTY ASSISTANT SECRETARY OF THE INTERIOR FOR TERRITORIAL AND INTERNATIONAL AFFAIRS, DEPARTMENT OF THE INTERIOR

Mr. HOUSTON. Yes, sir. Thank you very much, sir.

Mr. Chairman and members of the Committee on Energy and Natural Resources, I am pleased to appear before you today to discuss the Federal Government's response to disasters in the insular areas over the years, hazard mitigation, and S. 2362.

Mr. Chairman, I wanted my written statement submitted earlier than it was, but it was in the approval process until late yesterday evening.

For the reasons outlined in my statement and in testimony from the Federal Emergency Management Agency (FEMA) and the U.S. Department of Agriculture, the Administration opposes enactment of S. 2362.

As you know, the Office of Territorial and International Affairs, Department of the Interior, has been involved in the Federal Government's response to Hurricane Hugo in the Virgin Islands. I commend your attention to our recently published "Report on the U.S. Virgin Islands: Hurricane Hugo Recovery and Future Economic Development." While the Federal and Virgin Islands governments, in partnership with the local citizenry have taken on the herculean task of rebuilding in the aftermath of the Hugo devastation, the restoration effort will take years.

Chief Federal responsibility for disaster lies with the Federal Emergency Management Agency. FEMA's authority under the Robert T. Stafford Disaster Relief and Emergency Assistance Act has evolved over the years and is quite comprehensive.

In earlier years, however, the FEMA program was not as extensive as it is today and considerable supplemental funding was required from other Federal agencies. For example, the Department of the Interior funded the Guam rehabilitation program to rebuild civilian infrastructure on Guam after Typhoon Karen in 1964.

After Typhoon Pamela in 1976, the Department of the Interior granted $20 million to the Government of Guam for loss of taxes and other revenue plus $15 million for rehabilitation of physical infrastructure. Moreover, $10.2 million was later given to Guam as hazard mitigation funds for hardening Guam's electrical distribution system with concrete electric poles. In addition to these funds for the local civilian government, substantial sums were appropriated for repair of Federal military facilities. The funding of civilian needs covered losses that were not within FEMA's authority at the time.

Changes have occurred since Typhoon Pamela in 1976. FEMA's authority was broadened with the 1988 enactment of the Disaster

Amendments in Public Law 100-707 to include hazard mitigation on a 50/50 matching basis up to ten percent of public facilities restoration costs.

FEMA has been an important asset for the islands over the years. Since 1970, FEMA and its predecessors have aided the Virgin Islands, Guam, Puerto Rico, American Samoa, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands on 39 separate occasions with aid amounting to well over $1 billion. This is a substantial contribution in a world where most populations, faced with disasters, must go it alone.

In the storms of this past year FEMA has obligated the following amounts: $275,500,000 to the Virgin Islands for Hurricane Hugo; $673,860,000 to Puerto Rico for Hurricane Hugo; $1,807,000 to the Northern Mariana Islands for Typhoon Koryn; and $46,975,000 to American Samoa for Hurricane Ofa. These vast sums confirm not only the severity of the storms, but also the commitment of the Federal Government to alleviate the hardships endured by citizens in the insular areas.

The availability of other Federal programs has eliminated the need for much of the ad hoc interior funding that was required in the past. Executive Branch agencies, however, are still considering a number of issues through an interagency group. Immediately after the Hugo devastation in September, the Office of Territorial and International Affairs convened an interagency group to consider long-range recovery needs. We will continue to meet over the coming weeks to assess remaining issues related to the overall disaster response in the Virgin Islands.

Earlier this week, the interagency group discussed the Virgin Islands' proposal for Federal SBA disaster loans to aid those who incurred hurricane losses because they were insured with two Virgin Islands insurance companies that went bankrupt. This would help owners of private property, such as homeowners and business persons who would otherwise receive no assistance, to continue to live and work in the Virgin Islands.

The Virgin Islands' government proposes to guarantee the loans to the policyholders of the insolvent insurance carriers to the extent of the failed insurance coverage. The guarantee would be funded with revenue from the Virgin Islands insurance guarantee fund, with likely earmarking of existing four percent tax on all insurance written on the Virgin Islands. The interagency group finds the proposal to be worthy of further analysis. It could aid private sector recovery and the cost may be borne by those with closest responsibility, the insurance industry and users.

On the other hand, there are concerns about whether or not the four percent tax will generate sufficient revenue and about setting an undesirable precedent for bailing out insurance programs of State and local governments. Provided analysis verifies the viability of the Virgin Islands proposal, the Federal Government will back the plan.

Another very important issue is hazard mitigation. The benefit of rebuilding a facility in strengthened form is obvious; the facility will more likely withstand the onslaught of a future storm. In addition, Federal authorities view hazard mitigation as banking now against costs of future disasters. Survival of structures in a future

storm will eliminate future Federal outlays. The interagency group will work with the Virgin Islands to identify and prioritize cost-effective mitigation projects, to develop a timetable for their completion, and to obtain the financial resources necessary to achieve them.

We have seen it work on Guam. The concrete electric poles installed after Pamela functioned well during the 1986 storm. While some wires were down, the fact that the poles remained intact was the key factor for the rapid recovery of the electric power for the island. Similar structures might be replicated in other insular areas which will lower future disaster costs for the Federal Government.

We have a very specific objection in the definition section of the bill to the inclusion of the Freely Associated States. Such an inclusion was not intended in the Compact of Free Association for the Marshall Islands and the Federal States of Micronesia, approved in Public Law 99-239. By mutual agreement, the Compact substituted substantial block grant type payments for Federal programs that the Freely Associated States had earlier received under trusteeship status. One exception, however, was the Freely Associated State's eligibility for FEMA programs to the extent they were effective in fiscal year 1986. The Compact also extends to the Freely Associated States eligibility for FEMA programs. The Freely Associated State's disaster needs were negotiated and are already a part of the international Compact agreement. We, therefore, object to the inclusion of the words "Freely Associated States" in the bill.

In summary, we believe there is a need for the Administration to assess the costs and benefits of various alternatives for hazard mitigation including protection of the electric system from future storm damage. It might seem that eight months after Hurricane Hugo would be time enough to be certain of hazard mitigation needs. We wish that were so. But, I am sure that my colleagues here will agree with me that it is not. Working with the Virgin Islands' government, it will take time to accurately assess the various alternatives, their relative priority and the cost and benefits. We expect to have a clearer idea in the next few weeks of how to proceed, but we want to see that the job is done right. We suggest that action on S. 2362 at this time is unnecessary and we oppose its enactment. We request that the Committee allow the interagency group to examine all options and exhaust all existing remedies before further action is taken on the bill.

Thank you very much, Mr. Chairman.

Senator McCLURE [presiding]. Thank you. Mr. Peterson, I wonder if you could summarize the statement. Of course, we have your written statement and it will appear in the record in full. There is a conference on the supplemental appropriation bill which I am supposed to be attending at this hour. I would like to expedite this as much as is possible. So, if you could just highlight or summarize, rather than reading the entire statement. I can read and I will.

STATEMENT OF GRANT C. PETERSON, ASSOCIATE DIRECTOR, STATE AND LOCAL PROGRAMS AND SUPPORT DIRECTORATE, FEDERAL EMERGENCY MANAGEMENT AGENCY

Mr. PETERSON. Senator McClure, I respect your request and will stand on the record as it is submitted in total, if you would like. I would like to make a very short statement, in that we do have a number of authorities under the Federal Emergency Management Agency. I will read the first two pages of my testimony and stop; how is that?

Senator MCCLURE. That's okay.

Mr. PETERSON. I would thank you very much for the opportunity to be before you today with the Federal Emergency Management Agency's views on S. 2362 regarding assistance to the Virgin Islands and other insular areas. We appreciate the opportunity to speak before you on that.

I am Grant Peterson, Associate Director of the Federal Emergency Management Agency's State and Local Programs and Support. I want to talk just a moment about that. This directorate is responsible for a variety of programs, one under the Civil Defense Act, which the Chairman has mentioned in his opening remarks on the introduction of the Bill, not here but previously. We provide financial and technical assistance as well as resources to state and local governments to hire personnel, to plan for response to natural and technological emergencies, and nuclear attack.

This includes identifying shelters, establishing communications and warning systems, creating emergency operations centers, and obtaining the training necessary to support elected officials in managing their response to all emergencies.

Our Office of Natural and Technological Hazards under this directorate provides the criteria necessary for developing hurricane evacuation plans, seismic design and preparedness for earthquakes, the information for managing dams, and off-site emergency plans and exercises at fixed nuclear facilities, preparedness for off-site emergencies around the Department of Army's eight chemical weapons sites, and preparedness for hazardous materials incidents.

The third major area in the directorate is the Disaster Assistance Program Office where we administer the Robert T. Stafford Disaster Relief and Emergency Assistance Act. This legislation gives us the authority, after the President declares a disaster, to provide Federal assistance to supplement the efforts of state and local governments in response to major disasters and emergencies.

This assistance includes individual and family grants, temporary housing, disaster unemployment assistance, crisis counselling, debris removal, emergency protective measures, and the repair or replacement of public facilities.

My point in this first two pages, Senator McClure, is that all of these programs that we have contribute substantially to the ability of state and local governments, as well as the territorial governments to prepare, mitigate, respond, and recover from a wide range of disasters. Thus, we at FEMA feel we have a great deal of experience in dealing with the Virgin Islands, as well as other insular areas in all of our programs. And, most recently, of course, we were active in the Virgin Islands in response to Hurricane Hugo;

in the Northern Mariana this year as a result of Typhoon Koryn; and American Samoa as a result of Typhoon Ofa.

We would like to state before this Committee that we have used all of our authorities to the maximum allowable intent of the law to bring recovery to the Territories. There is diverse authorities and we believe that many of the recommendations encapsulated in the bill before us today, are covered to a major degree by existing authorities, especially as amended under the Stafford Act and the Civil Defense Act.

As a personal point of privilege, I would like to extend my appreciation to Governor Farrelly of the Virgin Islands, to Lieutenant Governor Hodge, and Delegate de Lugo for their continued involvement with us and cooperation in trying to resolve this most difficult disaster of the century.

I will leave the rest of my statement for the record, sir.

[The prepared statement of Mr. Peterson follows:]

STATEMENT OF

GRANT C. PETERSON

ASSOCIATE DIRECTOR
STATE AND LOCAL PROGRAMS AND SUPPORT
FEDERAL EMERGENCY MANAGEMENT AGENCY

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES

UNITED STATES SENATE

MAY 17,1990

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO OFFER THE FEDERAL EMERGENCY MANAGEMENT AGENCY'S VIEWS ON S.2362 REGARDING ASSISTANCE TO THE VIRGIN ISLANDS AND OTHER INSULAR AREAS. I AM GRANT C. PETERSON, ASSOCIATE DIRECTOR OF THE STATE AND LOCAL PROGRAMS AND SUPPORT DIRECTORATE IN FEMA. THIS DIRECTORATE IS RESPONSIBLE FOR A VARIETY OF PROGRAMS. UNDER THE CIVIL DEFENSE ACT, WE PROVIDE FINANCIAL AND TECHNICAL ASSISTANCE AS WELL AS RESOURCES TO STATE AND LOCAL GOVERNMENTS TO HIRE PERSONNEL, TO PLAN FOR RESPONSE TO NATURAL AND TECHNOLOGICAL EMERGENCIES AND NUCLEAR ATTACK. THIS INCLUDES IDENTIFYING SHELTERS, ESTABLISHING COMMUNICATIONS AND WARNING SYSTEMS, CREATING EMERGENCY OPERATING CENTERS, AND OBTAINING THE TRAINING NECESSARY TO SUPPORT ELECTED OFFICIALS IN MANAGING THEIR RESPONSE TO ALL EMERGENCIES. OUR OFFICE OF NATURAL AND TECHNOLOGICAL HAZARDS PROVIDES THE CRITERIA NECESSARY FOR DEVELOPING HURRICANE EVACUATION PLANS, SEISMIC DESIGN AND PREPAREDNESS FOR EARTHQUAKES, THE INFORMATION FOR MANAGING DAMS, OFFSITE EMERGENCY PLANS AND EXERCISES AT FIXED NUCLEAR

FACILITIES, PREPAREDNESS FOR OFFSITE EMERGENCIES AROUND THE DEPARTMENT OF THE ARMY'S EIGHT CHEMICAL WEAPONS SITES, AND PREPAREDNESS FOR HAZARDOUS MATERIALS INCIDENTS. THE THIRD MAJOR AREA IN THE DIRECTORATE IS THE DISASTER ASSISTANCE PROGRAM OFFICE WHERE WE ADMINISTER THE ROBERT T. STAFFORD DISASTER RELIEF AND EMERGENCY ASSISTANCE ACT. THIS LEGISLATION GIVES US THE AUTHORITY AFTER THE PRESIDENT DECLARES A DISASTER TO PROVIDE FEDERAL ASSISTANCE TO SUPPLEMENT THE EFFORTS OF STATE AND LOCAL GOVERNMENTS IN RESPONSE TO MAJOR DISASTERS AND EMERGENCIES. THIS ASSISTANCE INCLUDES INDIVIDUAL AND FAMILY GRANTS, TEMPORARY HOUSING, DISASTER UNEMPLOYMENT ASSISTANCE, CRISIS COUNSELING, DEBRIS REMOVAL, EMERGENCY PROTECTIVE MEASURES AND REPAIR OR REPLACEMENT OF PUBLIC FACILITIES.

ALL OF THESE PROGRAMS CONTRIBUTE SUBSTANTIALLY TO THE ABILITY OF STATE AND LOCAL GOVERNMENTS AS WELL AS TERRITORIAL GOVERNMENTS TO PREPARE, MITIGATE, RESPOND, AND RECOVER FROM A WIDE RANGE OF

DISASTERS. THUS, WE AT FEMA HAVE A GREAT DEAL OF EXPERIENCE IN DEALING WITH THE VIRGIN ISLANDS AS WELL AS OTHER INSULAR AREAS IN ALL OF OUR PROGRAMS. MOST RECENTLY, OF COURSE, WE ARE ACTIVE IN THE VIRGIN ISLANDS IN RESPONSE TO HURRICANE HUGO, IN THE NORTHERN MARIANAS AS A RESULT OF TYPHOON KORYN AND IN AMERICAN SAMOA AS A RESULT OF TYPHOON OFA.

I WILL NOT DWELL ON THE SEVERITY OR IMPACT OF HURRICANE HUGO, WHICH HEAVILY IMPACTED THE VIRGIN ISLANDS AND DEVASTATED ST. CROIX. BY VIRTUE OF ITS RESPONSIBILITIES UNDER THE STAFFORD ACT, FEMA COORDINATED THE FEDERAL RESPONSE AND THE FEDERAL RECOVERY PROGRAMS WHICH ARE STILL ONGOING.

WITHIN HOURS OF HUGO'S PASSAGE OVER THE VIRGIN ISLANDS AND PUERTO RICO, FEMA PERSONNEL AND COMMUNICATIONS EQUIPMENT WERE ON THE SCENE. AS SOON AS THE GOVERNOR'S REQUEST WAS RECEIVED, THE PRESIDENT DECLARED A MAJOR DISASTER FOR THE VIRGIN ISLANDS.

WE FOUND THAT THE INFRASTRUCTURE OF THE ISLAND OF ST. CROIX WAS VIRTUALLY DESTROYED. AIRLIFTS CONTINUED FOR WEEKS IN THE WAKE OF THE STORM PROVIDING FOOD, WATER, COMMUNICATIONS, POWER SUPPLIES, AND CREWS AND MEDICAL ASSISTANCE. OVER 4.5 MILLION POUNDS OF FOOD WERE AIRLIFTED TO ST. CROIX. APPROXIMATELY 90 PERCENT OF THE HOUSING WAS DESTROYED OR SUSTAINED MAJOR DAMAGE - OVER 5.5 MILLION SQUARE FEET OF PLASTIC SHEET WAS INSTALLED TO PROVIDE TEMPORARY ROOFS. THE ELECTRIC POWER SYSTEM WAS DESTROYED AND EVEN THOUGH FEMA FLEW IN SEVERAL HUNDRED UTILITY PERSONNEL, THE DAMAGE WAS SO EXTENSIVE THAT SERVICE WAS NOT FULLY RESTORED UNTIL JANUARY. OVER 2 MILLION CUBIC YARDS OF DEBRIS WERE REMOVED.

IN ADDITION, OVER 25,000 INDIVIDUALS AND FAMILIES APPLIED FOR ASSISTANCE. MORE THAN 13,000 RECEIVED INDIVIDUAL AND FAMILY GRANTS FOR A CURRENT TOTAL OF NEARLY $50 MILLION AND OVER 9,000 FAMILIES HAVE RECEIVED HOUSING ASSISTANCE TOTALLING NEARLY $30 MILLION. NEARLY 2,000 DAMAGE SURVEY REPORTS ON PUBLIC FACILITIES HAVE BEEN

COMPLETED FOR A TOTAL DOLLAR AMOUNT THUS FAR OF OVER $104 MILLION.

ALL OF THESE ACTIVITIES AND MANY OTHERS WERE CARRIED OUT AT THE DIRECTION OF AND WITH FUNDING PROVIDED BY FEMA UNDER THE AUTHORITY OF THE STAFFORD ACT. THEREFORE, WE FEEL CONFIDENT THAT WE AT FEMA ARE WELL AWARE OF THE CONSEQUENCES OF DISASTERS ON THE VIRGIN ISLANDS AND OTHER INSULAR AREAS. WE ESTIMATE THAT FEMA EXPENDITURES ALONE IN THE VIRGIN ISLANDS AS A RESULT OF HUGO WILL EXCEED $327 MILLION.

WITH THESE EXPERIENCES FRESH IN OUR MINDS AND THE MEMORY OF MANY YEARS OF PREVIOUS EXPERIENCE WITH DISASTERS IN INSULAR AREAS, WE HAVE CAREFULLY REVIEWED THE PROVISIONS OF S.2362. I'D LIKE TO MAKE A FEW GENERAL COMMENTS ABOUT THE BILL AND THEN SPEAK SPECIFICALLY TO THOSE SECTIONS WHICH ARE OF PARTICULAR INTEREST TO US.

FEMA SHARES THE CONCERN OF THE COMMITTEE ABOUT THE IMPACT OF RECENT DISASTERS ON INSULAR AREAS. IN RESPONSE TO THAT CONCERN, AN AD HOC COMMITTEE HAS RECENTLY BEEN ESTABLISHED TO BE CO-CHAIRED BY FEMA AND THE DEPARTMENT OF THE INTERIOR. THIS COMMITTEE WILL EVALUATE WHAT ASSISTANCE HAS BEEN PROVIDED, PARTICULARLY TO THE VIRGIN ISLANDS, BY A WIDE VARIETY OF FEDERAL AGENCIES. THE COMMITTEE WILL ALSO EVALUATE ADDITIONAL ASSISTANCE THAT MAY BE NEEDED, WHAT FUNDING SOURCES ARE AVAILABLE AND APPROPRIATE, AND HOW TO ENSURE DUPLICATION OF FEDERAL EFFORT AND ASSISTANCE DOES NOT OCCUR. THE COMMITTEE WILL ALSO WORK WITH THE VIRGIN ISLANDS TO ESTABLISH A STRATEGY AND TIMETABLE FOR ACCOMPLISHING THESE PROJECTS. IN PROVIDING THIS ASSISTANCE, WE MUST AVOID PROVIDING A DISINCENTIVE TO INSULAR AREA GOVERNMENTS TO MANAGE PROPERLY THEIR OWN GOVERNMENTAL RESPONSIBILITIES AND PREPARE FOR THE POSSIBILITY OF FUTURE DISASTERS.

WHILE WE SHARE THE GOAL OF S.2362, AND ARE ACTIVELY INVOLVED IN PROGRAMS, "TO ENHANCE THE SURVIVABILITY AND RECOVERY OF THE INSULAR AREAS FROM SEVERE STORMS", WE BELIEVE THAT THE AUTHORITIES PROVIDED IN THIS BILL ALREADY EXIST AND MUCH IS BEING DONE BY FEMA UNDER BOTH THE CIVIL DEFENSE ACT AND THE STAFFORD ACT TO SUPPORT AND ACHIEVE THIS GOAL. WE THEREFORE OPPOSE THE ENACTMENT OF THE BILL.

I WILL NOW ADDRESS SECTIONS OF THE BILL. SPECIFICALLY, SECTION 3 OF THE BILL AUTHORIZES FUNDS FOR THE CONSTRUCTION AND "HARDENING" OF ESSENTIAL INFRASTRUCTURE SUCH AS EMERGENCY OPERATING CENTERS, COMMUNICATION FACILITIES, AND ELECTRICAL POWER GENERATION AND DISTRIBUTION SYSTEMS. SECTION 3 ALSO WAIVES COST-SHARING REQUIREMENTS FOR EXISTING PROGRAMS DESIGNED FOR THIS PURPOSE.

THIS SECTION DUPLICATES FEDERAL AUTHORITIES WHICH ALREADY EXIST FOR THIS PURPOSE UNDER THE CIVIL DEFENSE ACT AND THE STAFFORD ACT AND ARE BEING BROUGHT TO BEAR IN MANY AREAS INCLUDING THE VIRGIN ISLANDS. IN ADDITION, UNDER THE INSULAR ACT, PL95-134 AS AMENDED, FEDERAL AGENCIES ALREADY HAVE THE AUTHORITY TO MODIFY COST-SHARE REQUIREMENTS. IT IS IMPORTANT TO NOTE, HOWEVER, THAT THIS AUTHORITY MUST BE USED WITH DISCRETION SINCE EXPERIENCE SHOWS THAT STATE, LOCAL, AND TERRITORIAL GOVERNMENTS SHOW A HIGHER LEVEL OF ATTENTION TO EMERGENCY PREPAREDNESS WHEN THEY PARTICIPATE IN THE PLANNING AND FUNDING OF EMERGENCY PREPAREDNESS.

ONE OF OUR GOALS MUST BE TO ENCOURAGE INVOLVEMENT BY THESE GOVERNMENTS IN MITIGATING AND PREPARING FOR FUTURE DISASTERS.

LIKEWISE, SECTION 5A OF THE BILL AUTHORIZES FEDERAL TECHNICAL ASSISTANCE TO INSULAR AREA GOVERNMENTS UPON ASSESSMENT OF THE CAPABILITY OF THOSE GOVERNMENTS TO RESPOND TO DISASTERS. THIS PROVISION IS UNNECESSARY AS SUCH ASSESSMENT AND ASSISTANCE IS NOT ONLY AUTHORIZED UNDER THE STAFFORD ACT, BUT ROUTINELY PROVIDED WHEN IT IS NEEDED AS IT WAS IN THE VIRGIN ISLANDS AFTER HURRICANE HUGO. AGAIN, HOWEVER, SOME CARE MUST BE TAKEN IN THIS PROCESS TO RESPECT THE AUTHORITY OF THE INSULAR AREA GOVERNMENT.

SECTION 6 WAIVES COST-SHARING REQUIREMENTS FOR FEMA'S HAZARD MITIGATION GRANT PROGRAM UNDER THE STAFFORD ACT AND ELIMINATES THE STATUTORY CAP ON THIS PROGRAM. AGAIN, WE FEEL THAT THIS IS UNNECESSARY BECAUSE OF THE COST-SHARING WAIVER ALREADY AVAILABLE UNDER THE INSULAR ACT WHICH I REFERENCED PREVIOUSLY. IT IS STILL NOT CLEAR THAT FUNDS ARE NEEDED OR COULD BE PRODUCTIVELY USED ABOVE WHAT IS ALREADY AVAILABLE UNDER THIS PROGRAM.

IN CONCLUSION, WE OPPOSE S.2362 AS CURRENTLY WRITTEN. WE UNDERSTAND AND SUPPORT THE BILL'S INTENT. HOWEVER, WE FEEL THAT OUR RECORD OF ASSISTANCE TO INSULAR AREAS IS CLEAR. THE EXTRAORDINARY ASSISTANCE WHICH FEMA IS STILL PROVIDING IN THE VIRGIN ISLANDS AND OTHER INSULAR AREAS IS AMPLE PROOF OF OUR INTEREST IN PROVIDING PROMPT RELIEF IN BOTH EMERGENCY RESPONSE AND RECOVERY ACTIVITIES. WE ARE COMMITTED TO WORKING TOGETHER WITH THE DEPARTMENT OF INTERIOR AND OTHER FEDERAL AGENCIES TO ENSURE THE MOST APPROPRIATE AND COMPLETE ASSISTANCE TO THE VIRGIN ISLANDS AND OTHER INSULAR AREAS NOT ONLY IN RECOVERING FROM DISASTERS WHICH HAVE ALREADY OCCURRED, BUT PREPARING FOR AND MITIGATING THE EFFECTS OF DISASTERS WHICH WILL OCCUR IN THE FUTURE.

FEMA'S SPECIFIC CONCERNS ON S.2362 AND REASONS FOR OPPOSING THE BILL ARE ALSO CONTAINED IN AN ACCOMPANYING REPORT ON THE LEGISLATION PREVIOUSLY REQUESTED BY THIS COMMITTEE.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AND I WOULD BE HAPPY TO ANSWER ANY QUESTIONS WHICH YOU MAY HAVE.

Federal Emergency Management Agency
Washington, D.C. 20472

MAY 16 1990

The Honorable J. Bennett Johnston
Chairman
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We are writing in response to your request for the views of the Federal Emergency Management Agency (FEMA) on S. 2362, a bill cited as the "Insular Areas Recovery Act of 1990." FEMA is opposed to enactment of S. 2362 for the reasons described below.

Section 3 of the bill would authorize appropriations "to construct facilities to protect public health and safety, and to enhance the survivability of essential infrastructure in the event of disasters in the Insular Areas." Section 201(i) of the Federal Civil Defense Act of 1950, as amended, ("the civil defense act") 50 U.S.C. App. 2281(i), already authorizes FEMA to contribute Federal civil defense funds to the Virgin Islands, Puerto Rico, Guam, American Samao, the Trust Territory of the Pacific Islands, and the Commonwealth of the Northern Mariana Islands for, among other activities, the construction of Emergency Operations Centers (EOC's). It appears that section 3 of the bill would expand this civil defense financial assistance authority to also apply to the Freely Associated States (pursuant to the definition of "Insular Areas" in section 2 of the bills). We assume that the reference to the Freely Associated States includes the Federated States of Micronesia and the Republic of the Marshall Islands, which were created with enactment of the Compact of Free Association of 1985, P.L. 99-239. In addition, the reference to the Freely Associated States would presumably include the Republic of Palau once its Compact of Free Association is approved.

Neither the Republic of the Marshall Islands nor the Federated States of Micronesia negotiated a continuing eligibility for civil defense funding for themselves during the negotiations which led to enactment of P.L. 99-239. In addition, we understand that the remaining portions of the Trust Territory of the Pacific Islands (which will become the Republic of Palau once its Compact of Free Association is approved) have not attempted to negotiate a continuing eligibility for civil defense funding. Therefore, we do not believe it is appropriate for Congress to authorize civil defense funding for the Republic of the Marshall Islands, the Federated States of Micronesia, and what is likely to soon become the Republic of Palau indirectly through enactment of S. 2362.

In addition to our concerns about expansion of the civil defense funding authority to the Republic of the Marshall Islands, the Federated States of Micronesia, and eventually, the Republic of Palau, we have even more basic concerns about section 3 of the bill. Section 201(i) of the civil defense act specifies that FEMA can contribute no more than 50 percent of the costs of shelters and protective facilities pursuant to that authority. The intent of section 3 of the bills is apparently to mandate a waiver of this 50 percent cost sharing requirement. Congress intended that emergency preparedness be a partnership between the Federal Government and State/local/territorial governments. The proposal at section 3 of the bill would eliminate civil defense cost sharing in the Insular Areas and would therefore be inconsistent with Congressional intent in this regard. FEMA's experience over many years reveals that State, local and territorial governments show the highest level of attention to emergency preparedness when they have vested interests in the financing of their emergency preparedness activities.

In summary, we are opposed to section 3 of the bill because Federal funding along the lines of that contemplated by the provision is already authorized by the Civil Defense Act. We also oppose the proposal in section 3 of the bill to waive the cost sharing which is mandated by section 201(i) of the Civil Defense Act. Finally, we are opposed to expansion of the civil defense funding authority to include the Federated States of Micronesia, the Republic of the Marshall Islands, and (imminently) the Republic of Palau.

Section 5 of the bill would authorize the provision to Insular Areas of technical assistance by the Federal Government if such assistance would be helpful in Insular Areas' recovery from disasters. We are opposed to enactment of section 5 of the bill because the provision of technical assistance is already authorized by sections 402(3) and 502(a)(3) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act ("the Stafford Act"), 42 U.S.C. 5170a(3) and 5192(a)(3), respectively. We are also concerned that enactment of section 5 of the bill would provide a disincentive for the Insular Areas to develop in-house capabilities to respond to disasters and would discourage Insular Areas' participation along with the Federal Government in management of the recovery efforts. FEMA's experience indicates that more effective recoveries from disasters will occur if the affected governments are required to participate along with the Federal Government in management of the recovery efforts. Because this provision of the bill would duplicate existing Stafford Act authorities and would provide a disincentive to Insular Areas' participation in recovering from disasters, we oppose its enactment.

Section 6(a) of the bill would authorize a discretionary waiver of the cost sharing requirements which are imposed by section 404 of the Stafford Act, 42 U.S.C. 5170c. Such a discretionary waiver is already authorized by 48 U.S.C. 1469a(d), at least with respect to the Virgin Islands, American Samoa, Guam,

and the Northern Mariana Islands. Therefore, this portion of section 6(a) of the bill would duplicate the existing authority at 48 U.S.C. 1469a(d), and its enactment is unnecessary.

Your introductory statement relating to S. 2362 (which appears at page S 3533 of the March 29, 1990, Congressional Record, a copy of which is enclosed) indicates an intent that section 6 would also permit a waiver of the 10 percent cap on hazard mitigation funding which is imposed by section 404 of the Stafford Act. While section 6(a) only speaks in terms of permissive waivers, enactment of the provision would inappropriately raise the Insular Areas' expectations that such waivers would be granted. In addition, we oppose efforts to waive this cap. While we support investments in hazard mitigation, we do not believe that the disaster relief fund should be an unlimited source of funds for these types of activities. The amount of hazard mitigation funding currently authorized by section 404 of the Stafford Act provides a reasonable level of funding for hazard mitigation projects. The level of hazard mitigation which is established in the Stafford Act serves as an appropriate incentive for State, local and territorial governments to undertake hazard mitigation activities. Therefore, we are opposed to enactment of section 6(a) of the bill.

Section 6(b) of the bill proposes to waive a perceived requirement at section 307 of the Stafford Act, 42 U.S.C. 5150, that only local firms be used in the expenditure of Federal disaster assistance funds. In fact, section 307 only imposes this mandate "to the extent feasible." Because the proposal at section 307 assumes an absolute mandate which in fact does not exist, we do not feel that enactment of section 6(b) is necessary.

There is also a technical error at section 2(2) of the bill. That section refers to disasters declared under section 301 of the Stafford Act. The proper reference is to section 401 of the Act.

Sincerely,

George W. Watson
Acting General Counsel

Enclosure

STATEMENT BY SENATOR JOHNSTON, CONGRESSIONAL RECORD, MARCH 29, 1990

INSULAR AREAS RECOVERY ACT

Mr. JOHNSTON. Mr. President, it has been an especially difficult past 2 years for many of our fellow Americans who live in the insular areas of the Pacific and Caribbean. Hurricanes and typhoons have been occurring with great frequency, and hitting with great force.

Most of us are aware of the extensive damage caused by Hurricane "Hugo" in the Virgin Islands, Puerto Rico and the Carolinas last October. But few of us know of typhoons Tusi and Ofa, which tore through the Samoas, or Roy which devastated parts of the Marshalls, or Koryn which recently wrecked the Marianas. Each of these islands has recently been declared a disaster area by the President. In response, each has, with the excellent assistance of the Federal Emergency Management Agency, begun the road to recovery. However, there are special circumstances in these islands which complicate recovery, and which I believe warrant special attention. The frequency of these severe storms has convinced me that a special effort must be made to "harden" certain infrastructure against future storm damage. It simply doesn't make sense to keep rebuilding to existing standards only to have facilities blow down again. I can't remember exactly how many times the taxpayers have paid to reinstall wooden power poles in Saipan, but I'm certain that it would have been less expensive to put in hardened steel or concrete poles many years ago.

A second problem in the islands is their extreme vulnerability to damage to the communications and transportation systems. Unlike the mainland, when a disaster strikes in the islands neighboring communities can't load up trucks with supplies, and drive to provide assistance. Docks and airports are usually heavily damaged and assistance is delayed during the first critical days. In the Virgin Islands conditions of near panic followed in the wake of Hugo and the collapse of all communications. Public Health and safety must be protected with special efforts to assure the survival of essential infrastructure during disasters.

A third problem which some of the islands have is a severe shortage of trained government and private sector personnel to negotiate and manage reconstruction contacts. Most of these island communities are simply too small, too remote and too underdeveloped to cope with the stress of a disaster. FEMA does as good a job as can be expected—but remember, FEMA assumes the presence of a wide range of Federal agencies, a sophisticated and experienced State government, and a well developed private sector to do most of the actual work of reconstruction. Unfortunately, in the islands these assumptions are usually invalid.

It is in response to these problems, Mr. President, that I am today introducing the Insular Areas Recovery Act of 1990.

This bill would greatly enhance the ability of the islands to survive disasters by encouraging the "hardening" of essential infrastructure before a severe storm strikes. The bill would also assit the islands in recovering from disasters by given the President and the Governors greater flexibility in meeting costs and in providing needed technical assistance.

The principal feature of this measure, section 3, is an authorization for appropriations to construct facilities, such as civil defense shelters, to help assure the survival of the most basic governmental functions, such as communications. This authorization would also allow appropriations to supplement FEMA and local funds so that essential infrastructure could be rebuilt to withstand future storms, and thus break the costly cycle of rebuilding facilities to old standards only to have the destroyed again.

Section 4 would allow the island Governors to use certain Federal grants to meet emergency recovery needs. Often a Governor's recovery options are limited by a lack of local matching funds. This authority would allow the Governors to shift certain Federal grants, such as Low Income Energy Assistance grants, to higher priority disaster needs and would thus help to keep options available that would otherwise be foreclosed by the lack of local funding.

Section 5 requires the President, upon the declaration of a disaster in an insular area, to assess the capability of the insular area government to respond to disaster. If the President finds that the local government lacks capabilities essential to the recovery effort, such as the ability to manage the substantial increase in contracting and funding activity, then the President shall provide the necessary technical assistance. This section is intended to require a review of local government capabilities, and to require that appropriate technical assistance be provided so as to assure an efficient and well managed recovery effort. As stated earlier, FEMA assumes certain capabilities exist with the local government and can be relied upon in the re-

covery effort. However, the local government is usually a State government. In the case of the insular areas, remoteness, small size, and an often underdeveloped economy, makes this basic assumptions doubtful.

Prudence requires that a review of local capabilities be made as financial assistance is sent to the area. Prodence also requires that the technical assistance necessary for a smooth recovery effort be provided to the local Governor through agencies such as the Army Corps of Engineers or the Department of the Interior. It is intended that the cost of this technical assistance would be borne by FEMA or the agency provided the assistance.

Section 6 would authorize the President to waive certain funding and local hiring requirements of the Robert T. Stafford Relief and Emergency Assistance Act in recognition of the special circumstances found in the islands. Such flexibility may make the difference in getting a project done in the most effective manner and to the necessary standards.

For example, section 404 of the Stafford Act limits FEMA expenditures for hazard mitigation—so-called hardening—to no more than 10 percent of all public assistance grants made under section 406 of the act. In the case of typhoon Ofa, which recently hit American Samoa, the local government had wisely taken out insurance against a disaster. This means that FEMA's public assistance grants will be substantially lower if the local government had not taken out insurance. Ironically, the local government, after savings FEMA millions of dollars in assistance grants, has severly limited its eligibility for hazard mitigation grants since these grants are limited to 10 percent of the public assistance grants. Section 6 of this bill would allow the President to waive the 10 percent limit under section 404 of the Stafford Act, among other provisions, if the President finds that such a waiver would promote reconstruction so as to enhance survivability in the event of future disasters.

Section 7 of this Act would make certain technical corrections to the Robert T. Stafford Relief and Emergency Assistance Act to clarify the applicability of the act to the jurisdications of the former Trust Territory of the Pacific Islands. It does not alter the coverage of the act.

Finally, section 8 would authorize the Administrator of the Rural Electrification Administration [REA] to provide financial assistance to the insular areas for 5 years following a Presidential disaster declaration. This provision is very narrow, and is intended only to authorize additional REA assistance in cases of extreme hardship, following a disaster, and when the REA assistance would be cost effective because it would provide for the hardening of electrical systems against future storm damage.

There have been discussions with the administration regarding the policy and budget implications of section 8. The administration has been opposed to REA loans and has policy concerns regarding the expansion of REA's loan authority. While I appreciate this concern, I would hasten to point out two things. First, Congress has consistently supported REA, so it is safe to assume that the program will continue. Second, if REA is going to be making loans, then why not make loans that will reduce other Federal expenditures, in this case, FEMA grants to disaster areas?

I also appreciate the administration's budget concern regarding the bill. Our initial discussions with CBO indicate that this bill would have no budget impact, with the possible exception of section 8. I plan to continue to work with CBO and OMB in an effort to determine the budget impact of section 8. I hope that OMB will keep an open mind with respect to this section until all of the necessary budget information is available from CBO.

Finally, I would like to acknowledge the efforts of the Governors and the Delegates from the insular areas to resolve the many problems they face when disasters strike. The chairman of the House Subcommittee on Insular and International Affairs, Ron de Lugo, has been dealing with an enormous crisis in the Virgin Islands. He has worked closely with FEMA and his colleagues in the House on ways to respond to this crisis and get St. Croix back on its feet. Many of the ideas in this act derive from legislation he was able to pass out of the House of Representatives last year. I look forward to working with him on getting this bill enacted as soon as possible.

Mr. President, this bill reflects many years of experience in dealing with the particular circumstances of our insular areas. I look forward to working with others who are concerned with the island's welfare in fashioning a bill to meet these special conditions.

Mr. President, I ask unanimous consent that the text of the bill be printed in the RECORD.

Senator MCCLURE. Yes. Thank you very much. Mr. Byrne, I wonder if you could likewise summarize.

STATEMENT OF GARY C. BYRNE, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION, DEPARTMENT OF AGRICULTURE

Mr. BYRNE. I would be pleased to, Mr. Chairman.

Under section 8 of S. 2362, the insular areas would become eligible for REA financing for the construction and operation of generating plants, electric transmission and distribution lines, assistance to provide electricity to these territories. The Department of Agriculture opposes the use of the Rural Electrification Act for these purposes.

The Department's opposition rests in three main areas. First, the provision of such assistance raises the issue of fairness to those mainland coastal areas which experience the same storms but would not qualify for the same assistance.

Second, the bill would involve REA in providing assistance in densely populated areas which already have electric service. The REA electric program was created by Congress to provide funding to rural areas which meet the basic qualifications for assistance under the REA authorizing legislation. And third, the need to bring the deficit under control has caused the Administration to evaluate all Federal loan programs. The proposed legislation could potentially add hundreds of millions of dollars in outlays annually to the REA program. The proposal for the Virgin Islands alone would cost over $60 million. These are large demands at a time when the program has a $604 million backlog of applications and funding for current applications can take up to a year. This legislation would add more borrowers to the queue of over 130 applications pending before REA.

While the Department is opposed to extending the REA for the purposes under S. 2362, we are eager to seek a solution that will aid the citizens of these devastated areas. In this effort we have joined a Federal interagency group along with the Departments of the Interior, Energy and FEMA to assess the disaster response effort in the Virgin Islands. The preliminary issues of this group have been mentioned by the other agencies testifying here today.

Mr. Chairman, this is the end of my prepared statement. I will be glad to answer any questions if you have any.

[The prepared statement of Mr. Byrne follows:]

STATEMENT

OF

GARY C. BYRNE

ADMINISTRATOR

RURAL ELECTRIFICATION ADMINISTRATION

ON BEHALF OF THE

UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES

UNITED STATES SENATE

ON

S 2362

THE INSULAR AREAS RECOVERY ACT OF 1990

MAY 17, 1990

Good morning Mr. Chairman and Members of the Committee.

My name is Gary Byrne and I am the Administrator of the Rural Electrification Administration. I appreciate the opportunity to appear before you to set forth the views of of the U.S. Department of Agriculture (USDA) and the Rural Electrification Administration (REA) on S. 2362, a bill "To enhance the survivability and recovery of the insular areas from severe storms."

I want to first briefly discuss the efforts of the Department of Agriculture and REA in the recovery of the coastal and insular areas in the aftermath of Hurricane Hugo. USDA immediately went to work by providing assistance in the form of food aid and technical assistance for disaster relief and recovery to the citizens of Puerto Rico, the U.S. Virgin Islands, and North and South Carolina. REA, working in conjunction with FEMA, responded to this crisis within hours by providing manpower and technical assistance to restore basic service to the devastated areas. Responding to this crisis, REA personnel spent over 5 weeks last fall working to rebuild power lines, substations, and power generating facilities.

While the Department applauds the efforts of the Committee for its work in providing relief to the insular areas, we oppose Section 8 of S. 2362. Section 8 proposes that six insular areas indentified in Section 2 of S. 2362 receive special treatment under the Rural Electrification Act (RE Act). If the President has declared a disaster, Section 8 would, for a period of five years, eliminate in that insular area the basic eligibility requirements for initial loans which have been the cornerstones of the REA electric program since 1936. I am speaking of the Rural Electrification Act requirements that electric loans be made "for systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service. "

The insular areas would become eligible for REA financing for the construction and operation of generating plants, electric transmission and distribution lines, or systems to provide electricity to these territories. This financing authority would be for "hazard mitigation" or system replacement, upgrading, and improvements for the municipal and government owned utilities in these areas. The Department opposes the use of the RE Act for these purposes.

The Department's opposition rests in three main areas:

First, the provision of such assistance raises the issue of fairness to those mainland coastal areas which experienced the same storms but would not qualify for the same assistance. For example, if the proposed legislation had been in place last year, the Virgin Islands Water and Power Authority would have qualified for REA loans, while Duke Power, an investor-owned utility which serves the Hugo devastated areas of North Carolina, would not have qualified.

Second, the bill would involve REA in providing assistance in densely populated areas which already have electric service. The REA electric program was created by Congress to provide funding to <u>rural</u> areas which meet the basic qualifications for assistance under the REA authorizing legislation.

The basic qualifications are:

1) You must not have "central station service" -- in laymen's terms this means no current service -- and;

2) You must live in a rural area with a population density of less than 1500 people. A rural area is defined as: An incorporated or unincorporated, city, town, borrough, or village.

Third, the need to bring the deficit under control has caused the Administration to evaluate all Federal loan programs. The proposed legislation could potentially add hundreds of millions of dollars in outlays annually to the REA program.

The proposal for the Virgin Islands alone would cost over $60 million. These are large demands at a time when the program has a $604 million backlog of applications, and funding for current applicants can take up to a year. This legislation would add more borrowers to the queue of over 130 applications pending before REA.

While the Department is opposed to extending the RE Act for the purposes under S. 2362, we are eager to seek a solution that will aid the citizens of these devastated areas. In this effort, we have joined a Federal Inter-agency group along with the Departments of the Interior, Energy, and FEMA to assess the disaster response effort in the Virgin Islands. The preliminary issues of this group have been mentioned by the other agencies testifying here today.

This group will be meeting regularly and is tasked to seek solutions for the Virgin Islands and for future disaster recovery. In this endeavor, I look forward to working with the other members of this inter-agency group and offer the help of the REA in providing technical assistance to the citizens of the insular areas to restore basic service and help them recover from these disasters.

Mr. Chairman and members of the committee, this is the end of my prepared statement. I am pleased to answer any questions you may have.

Senator McCLURE. Thank you very much. Mr. Stewart.

STATEMENT OF FRANK M. STEWART, JR., DEPUTY ASSISTANT SECRETARY, OFFICE OF TECHNICAL AND FINANCIAL ASSISTANCE, DEPARTMENT OF ENERGY

Mr. STEWART. Good morning, sir.

The Department of Energy is pleased to have the opportunity to testify this morning. I would like to highlight a few of the points that the Department wanted me to share with you; they wanted me to note that following a request from Governor Farrelly, Secretary Watkins directed the Assistant Secretary for Conservation and Renewable Energy, J. Michael Davis, to assemble a team of energy-efficiency experts from Oak Ridge National Laboratory, Sandia National Laboratory, the Solar Energy Research Institute, and from the Department's headquarters' staff. I was pleased to head that team. We were assigned to go to the Virgin Islands to assess, in terms of the recovery needs, what kinds of things the Department could do to assist the Virgin Islands in their reconstruction.

As a result of that effort, the Virgin Islands' Energy Office has decided to establish a renewable energy center which will be the focus and catalyst for the development of efficiency and renewable energy applications. It is anticipated that the center will provide energy information resources that will permit the Island to better withstand future disasters.

More generally, in our efforts, we plan to work with the Virgin Islands to make the best use for recovery-related purposes of the $17 million of oil overcharge funds within the Islands' control.

We believe this experience provides some relevant perspective on S. 2362. It is clear that energy plays a very important role in restoring basic services and aiding economic recovery in mitigating the impact of future disasters. It is also clear that in addressing the energy issues related to the recovery, the governing official of an insular area should have the advantage of additional flexibility in the use of available energy funds.

With respect to the specific proposal, we defer to the Department of Health and Human Services. We understand that HHS objects to singling out the LIHEAP program for diversion of funds from its statutory purpose for disaster recovery activities. We defer to the Department of Interior, the Rural Electrification Administration, and the Federal Emergency Management Agency on other sections of the proposed legislation. The Administration opposes S. 2362 for the reasons outlined by these agencies.

Thank you for your time and attention. I will be available to answer any questions you have.

[The prepared statement of Mr. Stewart follows:]

Statement of Frank M. Stewart
Deputy Assistant Secretary
Office of Technical and Financial Assistance
Conservation and Renewable Energy
U.S. Department of Energy

Committee on Energy and Natural Resources
U.S. Senate
May 17, 1990

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to present the Administration's view on Section 4 of S. 2362, the "Insular Areas Recovery Act of 1990."

In the past year the insular areas of both the Atlantic and the Pacific have been affected by weather-related disasters. Hurricane Hugo in the Atlantic and typhoons in the Pacific caused considerable devastation. Recovery from a major natural disaster is difficult for any area, but it is more difficult for the insular areas, where skilled labor and specific materials frequently are not readily available, where transportation of materials is always a problem, and where essential elements of the infrastructure lack replacement capability.

Hurricane Hugo's impact on St. Croix, the U.S. Virgin Islands, in October of last year was a major natural disaster. During the few hours of that storm, virtually all green vegetation was stripped from the land; the medical facilities were incapacitated; the electrical distribution system was destroyed; the water supply systems suffered major damage; educational facilities were made unusable; more than nine out of ten buildings suffered significant structural damage; and major elements of the economy

of the island were left in shambles. Certain areas of the island of Puerto Rico suffered similar damage. It is a tribute to the perseverance and commitment of the governments and the people of Puerto Rico and St. Croix that such excellent progress has been and is being made in the recovery efforts.

Shortly after Hurricane Hugo struck, the Governor of the Virgin Islands, Alexander Farrelly, wrote to the Secretary of Energy requesting that, in addition to the energy emergency assessment teams that were on the island just hours after the disaster, the Department of Energy send technical support that would focus on the energy-related aspects of the recovery effort. The Governor requested that the Department "provide the broadest range of assistance in the form of engineers, architects, procurement specialists, and renewable energy specialists who would work with us to rebuild and ensure an energy efficient Virgin Islands."

At the direction of Admiral Watkins, the Assistant Secretary for Conservation and Renewable Energy, J. Michael Davis, assembled a team of energy efficiency experts from Oak Ridge National Laboratory, Sandia National Laboratory, the Solar Energy Research Institute, and the Department of Energy's headquarters staff. That team was to assist the Virgin Islands Energy Office in its assessment of the recovery needs; to identify the technical support that the Department could provide; and to develop, in conjunction with the Virgin Islands staff, a plan for providing that assistance. As one result of that effort, the Virgin Islands Energy Office is establishing a Renewable Energy Center which will

be the focus and catalyst for the development of efficiency and renewable energy applications. It is anticipated that the Center will provide energy information resources that will permit the Islands to better withstand future disasters. More generally, in our efforts we plan to work with the Virgin Islands to make the best use for recovery-related purposes of $17 million in oil overcharge funds within their control.

We believe that this experience provides some relevant perspective on S. 2362. It is clear that energy plays a very important role in restoring basic services, in aiding the economic recovery, and in mitigating against the impacts of future disasters. It is also clear that, in addressing the energy issues related to the recovery, the governing official of the insular area should have the advantage of additional flexibility in the use of available energy funds.

Section 4 of S. 2362 provides that, for a period of two years from the date on which a disaster is declared by the President, the Governor of the affected area may transfer up to 100 percent of the area's respective allotment under the Low-Income Home Energy Assistance Act for the fiscal year in which the disaster occurred to the State Energy Conservation Program established under the Energy Policy and Conservation Act. With respect to this proposal, we defer to the Department of Health and Human Services (HHS). We understand that HHS objects to singling out the LIHEAP program for diversion of funds from its statutory purpose for disaster recovery activities.

We defer to the Department of the Interior, the Rural Electrification Administration, and the Federal Emergency Management Agency on other sections of the proposed legislation. The Administration opposes S. 2362 for the reasons outlined by those agencies in their testimony.

I appreciate your time and attention, and I would be pleased at this time to answer any questions you may have. Thank you very much.

Senator McCLURE. Thank you. For the reasons I stated earlier, I will be relatively briefer in my questions than I might otherwise be, but I will ask a few questions and then I and other members of the Committee will submit questions in writing for response in writing.

I might first turn to the REA. Mr. Byrne, I understand your concern as you stated it with respect to REA's basic mission being for rural areas. You would be hard pressed to find a more rural area than American Samoa. Have you ever visited there?

Mr. BYRNE. No, I have not.

Senator McCLURE. Well, I understand that maybe some portions of the Virgin Islands would not qualify as a rural area, but I would invite you to review that portion of your testimony because certainly it is not applicable to much of the territories we are talking about here.

If the systems in Samoa and the Virgin Islands had been built with REA assistance rather than from grants from Interior, would not section 8 of this bill be unnecessary?

Mr. BYRNE. Yes, it would.

Senator McCLURE. Is there any real difference between Federal dollars from Interior or REA?

Are we just—are these people getting lost in the bureaucratic shuffle of saying "Not my business. That is over in Interior's."

Mr. BYRNE. We are attempting to carry out the requirements of the REA Act.

Senator McCLURE. I understand that, but you are also resisting any change of that Act. We are trying to suggest that maybe we can change that Act and then you could carry it out appropriately.

Mr. BYRNE. All right. Our concern is that if we change the requirements of that Act and those changes come into the domestic, you know, onto the mainland, then we are just looking at a substantial potential increase in the size of the REA program.

Senator McCLURE. I understand that. With respect to the contrast between the insular areas and the mainland areas.

Is there not a way to respond to that question, however, by a provision that says REA assistance would be available if the system were originally financed by Federal funds?

Mr. BYRNE. That is the way it currently is in place. That was a policy decision made in 1953 that, if we have a current borrower, that borrower is eligible to continue——

Senator McCLURE. But that is only REA funds, not Federal funds.

Mr. BYRNE. That is only REA funds, yes, sir.

Senator McCLURE. And my question had to do with whether or not it was Federally funded.

Mr. BYRNE. That would require a change from our current policy.

Senator McCLURE. Yes. But would that not solve your problem with respect to mainland assistance to entities like Duke Power?

Mr. BYRNE. It certainly would with Duke Power, sir.

I am not sure what other entities might have had Federal funds to start a project, but it certainly would regarding Duke Power, no question.

Senator McCLURE. FEMA—given your experience in the territories, do you believe that the Federal Government as a whole should supplement current FEMA capabilities on mitigation when a disaster occurs?

Mr. PETERSON. I think we—I would like to put just a little context in it—the bill, the Stafford Act, which was written in 1988, did not have mitigation in it until 1988. So, we have a new bill, here. We were able to get 10 percent of the public assistance side on almost all infrastructure that is damaged except for debris removal. And for all of the states, the 56 states and territories that we deal with, we have a 50/50 match, except for the territories which we can waive the 50/50 match.

So, we feel we have authorities to mitigate. We have authorities in the territories under the Insular Act to waive the 50/50 match. And at this point in time, it seems to be a reasonably productive process, and a new process that goes far beyond restorative work.

Now, the other thing I would like to say is that when we go in and do restorative work under the Stafford Act—which we have done almost $40 million in electrical alone on the Virgin Islands—it is a new system, and I believe it is put in better or more solidly than it was before. So, there is some mitigation in the fact that we have almost a completely new system in distribution there.

Senator McCLURE. My greatest concern, I think, comes from the position of the Administration, generally, but not just the position, the statements that support that position and the statements by the Department of the Interior. I do not know whether you wrote those, Mr. Houston, or whether OMB did them for you. But I am really a little bit—more than a little bit concerned.

You state that $1 billion spent over the past twenty years is, and I quote, "A substantial contribution in a world where most populations faced with disaster must go it alone." I hope that the standards for U.S. citizens in the territories, and I am talking about U.S. citizens in territories where we have responsibilities, is not going to be the levels of domestic assistance that are provided in Tibet or Vanuatu or any other of the areas that are impoverished throughout the world, and not under U.S. jurisdiction.

And it seems to me to be a gratuitous insult to the people of the United States—citizens of the United States, who fall under U.S. jurisdiction—to say, "Well, we have given you more than the most impoverished people in the world get, so go away and leave us alone." That is the way I read your statement.

Mr. HOUSTON. Well, sir, I am sorry that that is how it was interpreted. It was not intended that way. We were just going to show the magnitude of the assistance that we have given in disasters in the past twenty years.

Senator McCLURE. These are American citizens.

Mr. HOUSTON. Yes, sir.

Senator McCLURE. These are areas where we have responsibility.

Mr. HOUSTON. Yes, sir.

Senator McCLURE. I think it can also be argued that if we had performed our job better in the first instance, there would have been less damage.

Mr. HOUSTON. Yes, sir.

Senator McCLURE. Is that not correct?

Mr. HOUSTON. Yes, sir. We embrace the concept of hazard mitigation.

Senator MCCLURE. Well it also has to do with how much you have to pay when there is a disaster because the damage is more extensive. Is that not correct?

Mr. HOUSTON. Yes, sir.

Senator MCCLURE. I have been around, I guess, too long. Because I remember how much difficulty we have had with past administrations getting adequate money to do anything. And then to have the administration come around and say, "Well, gosh. We may have done a bad job in the first place, but that is your fault, not ours." In effect.

The second point has to deal with your objections to including the Freely Associated States. Now, I am sure that you were not—I do not know whether you were involved, I do not believe you were involved in those negotiations. But the members of this Committee, and certainly myself, had something to do with the negotiations of those Compacts and their enactment. And your statement is simply flat wrong. I do not know where you got your information with respect to the Freely Associated States.

And finally, you state that you have only had eight months to assess the situation in the Virgin Islands. And I would only respond, this government, your agency, has had responsibility for the Pacific areas for over 40 years. Not eight months. You have had responsibility for the Virgin Islands far longer. This is not that complicated a bill for the Administration to present this type of testimony that says you have not paid any attention to what was there before. You did not know anything about what was there before. You have only had eight months to learn about what was there before. And that is simply specious.

Section III of the bill does nothing more than provide an open authorization to harden facilities and protect essential communications. Surely you have learned that much from Hugo. How much needs to be appropriated and whether it should be supplemented of the efforts of FEMA and other agencies is something we can discuss and need to discuss. But we need some assistance from the Administration.

But absent the authority, there will be no assistance. The technical assistant provisions of section V should not be a problem nor a request that you report to the Congress when you learn from each disaster.

Section VI addresses the recent situation in Samoa where mitigation assistance was limited because of actions by the Governor, which saved the Federal Government funds. And the waiver of the local hire preference under 6(b) is simply a recognition of the situation which most areas experience in responding to major disasters. I think you know that much about the territories. I would hope you do, and yet I find just blanket opposition.

We will have some questions to the Administration for the record, but there appears to be no reason to waste anyone's time in prolonging this hearing, because I do not find you prepared to answer the questions. You have not even addressed the issues.

The positions of FEMA, REA and Energy are little, if any better than Interior. But Interior should have responded better because

the chief responsibility for the insular areas, disaster or not, is not FEMA or anyone else, but Interior.

I am disappointed that after this long a period of time—I guess I should say something on the record which I have said privately and I believe is there, and I think I see it being evidenced here today. The Administration had a secret agenda when they were negotiating compacts. And that secret agenda was "Cut them loose and let them sink." That was not what this Committee or this Congress had in mind and that is not what the legislation says. And any honest reading of the history of the negotiation of the compacts would indicate that the Congress of the United States and the Administration—the government of the United States—made commitments to people, which, based upon your testimony today, seem to have been false statements when made, false assurances when made.

I hope I am reading this record wrong today. I hope that is not what is behind the statement that has come from the Administration today to just say "Nope. We have no responsibility." I think we do. We will submit questions for the record, for response to the record.

I thank you all for your appearance today.

Thank you.

[Whereupon, at 10:37 a.m., the hearing was adjourned.]

APPENDIX

RESPONSES TO ADDITIONAL QUESTIONS

United States Department of Agriculture

Rural Electrification Administration

Washington D.C. 20250

July 18, 1990

The Honorable J. Bennett Johnston
Chairman
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510-6150

Dear Mr. Chairman:

In response to your request for official REA answers to further questions from the Committee regarding S-2362, I am enclosing a copy of my detailed reply.

I appreciate your consideration in permitting me to testify before your Committee on enhancing the survivability and recovery of insular areas from severe storms, and I look forward to working together with Congress in the future. Furthermore, I am grateful for your patience with our delay in returning our responses to you in a timely manner.

Sincerely

GARY C. BYRNE
Administrator

Enclosure

Committee note.—At the time of printing the Department of the Interior and the Federal Energy Management Agency had not responded to additional questions submitted by the Committee.

QUESTIONS FOR DEPARTMENT OF AGRICULTURE (REA)

1. Do you agree that reducing the damage resulting from storms in the islands through the "hardening" of facilities will reduce Federal costs for reconstruction, particularly in the case of electrical distribution systems?

2. Do you agree that funding such "hardening" through Federally assisted loans is preferable to giving Federal grants?

3. Which Federal agencies are authorized to make loans for the construction of electrical distribution systems?

4. The intent of Section 8 is to provide a source of funding for the "hardening" of the electrical distribution systems in islands where severe storms are relatively frequent (there have been 16 in the past 10 years), and thus reduce the need for Federal funding when the storm actually occurs.

   Is this a worthy objective?

   Given the range of existing Federal programs, isn't REA well suited to meet this objective?

   Are there other Federal programs that have more experience in electrical system loans than REA?

5. On page 3 you object to the "special treatment" which this Act would extend to the insular areas and you state that Section 8 would "eliminate... the basic eligibility requirements for initial loans which have been the cornerstones of the REA electric program since 1936.". However, haven't the insular areas already received "special treatment" in that the Federal government financed their electrical systems in the first place?

6. On page 4 you state that the eligibility of WAPA for REA loans under S. 2362, while Duke Power, an investor-owned utility, would be ineligible, is unfair. However, isn't there a fundamental difference between WAPA and Duke Power in that the WAPA system was built with Federal grants and loans while Duke Power was privately and user financed?

7. USDA also objects to Section 8 because it could potentially add substantially to REA outlays. However, "hardened" electrical distribution systems in the islands would more than offset those outlays by reducing FEMA's reconstruction costs following severe storms. Therefore, the net budget impact is to reduce costs. Isn't the enactment of Section 8, therefore, good budget policy?

8. Section 8 is intended to be used for a one-time system upgrade to "harden" electrical distribution systems in each of the islands. Would the USDA reconsider its position regarding Section 8 if it were limited to one loan for each island in order to harden the system against storms?

ANSWERS TO QUESTIONS FROM THE SENATE ENERGY COMMITTEE

1. Ordinarily the "hardening", i.e. increasing the physical strength factors of electric pole line facilities in storm prone areas, results in substantial increased initial investments with the anticipation that future reduced storm damage expenses will reduce the total ownership related expense and increase reliability of service over the life of the facility.

While this theory may have merit there are some limitations. For example, it may be virtually impossible to design and construct against a once in a lifetime type of storm. If this type of storm occurs and the facilities are damaged it is not easy to obtain equivalent replacement material and the cost and time factors of affecting repairs can easily offset the projected initial annual cost savings.

2. Yes, the funding of programs such as this will save the taxpayers in the long-run. There are many funding mechanisms in the Federal Government to assist in the long term funding of such projects. One such program is Federal Financing Bank guaranteed loans through the Department of the Interior (DOI). Another would be low interest disaster loans through the DOI. Another would be low interest disaster loans through the Federal Emergency Management Agency (FEMA). These sources of funding would be better suited for this purpose rather than creating a loophole in the RE Act.

3. The Rural Electrification Administration (REA) within the U.S. Department of Agriculture and DOI are each eligible to make loans for the construction of electrical distribution systems. In the case of disasters, FEMA can make loans to rebuild infrastructure.

4. a) The objective is a worthy one. However, Section 8 proposes that six insular areas receive special treatment under the RE Act. If the President has declared a disaster, Section 8 would, for a period of five years, eliminate in that insular area basic eligibility requirements for initial loans which have been the cornerstones of the REA electric program since 1936.

b) No. The RE Act was passed with specific limitations regarding central station service and population density and Section 8 would exceed both of these limitations. Section 8 would be unfair to utilities like Duke Power in North Carolina who suffered through the tragedy of Hurricane Hugo and who would not be eligible to receive funding to rebuild their systems.

c) No. Without exception, REA has over 50 years experience with electrical system loans and has the capability to provide excellent technical expertise to the insular areas under a reimbursable program as we have done in the past. The issue is whether the RE Act should be modified to create exceptions in the program to benefit insular only. REA is willing to provide the technical expertise but the financing must come from another source to ensure the integrity of the program.

5. Many of the insular areas received federal money to finance their electrical systems, but they did not receive funding from the REA. The treatment received by these areas in the past may not have been "special" under the authority originally used to finance their systems.

6. No. WAPA and Duke Power are fundamentally the same when applying the limitations of the RE Act to these organizations. Section 8 proposes to treat a municipal utility which already has central station service differently from a private utility though each has suffered greatly from Hurricane Hugo. The fact that at one time, one received federal assistance and the other did not is not the issue. There are utilities throughout the United States which were financed with Federal grants and loans and would be in the same category as Duke Power. The dams and electrical systems in the Pacific Northwest are examples of this. They were built with federal loans and grants yet, they too would not qualify for REA loans because Section 8 would only apply to the insular areas in disaster conditions.

7. "Hardened" electrical systems in any area have the potential to save the utility thousands or even millions of dollars in the case of a severe storm. The need to bring the deficit under control has caused the Administration to evaluate all Federal loan programs. In the case of WAPA, other sources of capital such as federally guaranteed loans through the DOI or FEMA loans are potential avenues that could be sought. One additional source is for WAPA to issue municipal bonds for reconstruction purposes as do hundreds of other municipal utilities throughout the United States.

8. No. Again the fairness issue comes to mind. To allow special treatment even for a one time hardening of these systems would undermine the integrity of the RE Act and cause serious conflict with the thousands of other electrical utilities who would like to utilize low interest federal money to rebuild their systems after natural disasters but cannot.